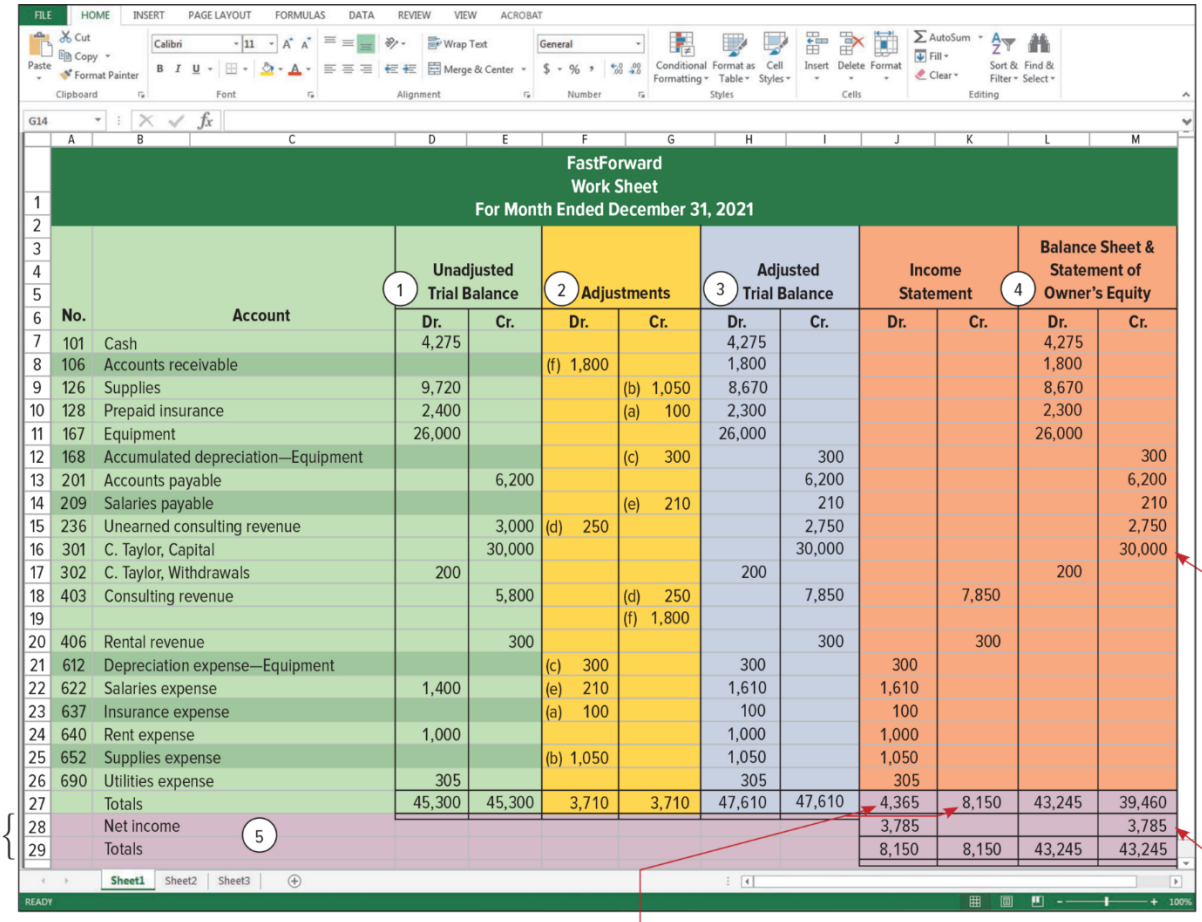
Page 126 4 Completing the Accounting Cycle Chapter Preview ACCOUNTING TOOL: WORK SHEET P1Benefits of a work sheet Preparing a work sheet Preparing financial statements NTK 4-1 CLOSING PROCESS P2Temporary accounts Closing entries Post-closing trial balance Accounting cycle NTK 4-2 CLASSIFIED BALANCE SHEET C1Classified balance sheet–Structure and categories A1Current ratio NTK 4-3 Learning Objectives CONCEPTUAL C1Explain and prepare a classified balance sheet. ANALYTICAL A1Compute and analyze the current ratio. PROCEDURAL P1Prepare a work sheet and explain its usefulness. P2Prepare closing entries and a postclosing trial balance. P3Appendix 4A—Prepare reversing entries and explain their purpose. Page 127 It's a Snap! "Creativity creates value" —Evan Spiegel VENICE, CA—Evan Spiegel met his future co-founder Bobby Murphy in college. "We weren't cool," recalls Bobby, "so we tried to build things to be cool!" One of their cool projects was an app that could send messages that disappeared after a few seconds. This app would later be called Snapchat (Snapchat.com). The first headquarters of Snapchat was the home of Evan's dad. However, within a matter of months, their app had over a million users. As Snapchat grew, Evan and Bobby knew an effective accounting system was key to attracting investors. "One of the things I did underestimate," admits Evan, "was how much more important communication becomes [when seeking investors]." Investors wanted to know revenues, costs, assets, and liabilities for Snapchat. "You really need to explain . . . how your business works," insists Evan. To communicate "the Snap story," the entrepreneurs learned how to use work sheets and create classified financial statements. This included learning the accounting cycle. With accounting reports in hand, Evan and Bobby were able to secure additional financing. Exclaims Evan: "That was the greatest feeling of all time!" J. Emilio Flores/Corbis/Getty Images Sources: Snapchat website, January 2021; Vanity Fair, October 2017; LA Times, March 2017; Forbes, January 2014

WORK SHEET AS A TOOL Benefits of a Work Sheet (Spreadsheet) P1 Prepare a work sheet and explain its usefulness. A work sheet is a document that is used internally by companies to help with adjusting and closing accounts and with preparing financial statements. It is an internal accounting aid and is not a substitute for journals, ledgers, or financial statements. A work sheet: Helps in preparing financial statements. Reduces the risk of errors when working with many accounts and adjustments. Links accounts and adjustments to financial statements. Shows the effects of proposed or "what-if" transactions. Decision Insight Alexander Image/Shutterstock Women in Accounting In a recent survey, it was reported that women make up roughly 50% of managers and senior managers at accounting firms. Women also make up about half of all supervisors and senior staff. If the current trend continues, women will soon hold the majority of manager

and senior staff positions in accounting. Source: AICPA ■ Use of a Work Sheet When a work sheet is used to prepare financial statements, it is constructed at the end of a period before the adjusting process. The complete work sheet includes a list of the accounts, their balances and adjustments, and their sorting into financial statement columns. To describe and interpret the work sheet, we use the information from FastForward. Preparing the work sheet has five steps. 1 Step 1. Enter Unadjusted Trial Balance Refer to Exhibit 4.1—green section. The first step in preparing a work sheet is to list the title of each account and its account number. This includes all accounts in the ledger plus any expected ones from adjusting entries. The unadjusted balance for each account is then entered in the correct Debit or Credit column of the unadjusted trial balance columns. The totals of these two columns must be equal. The light green section of Exhibit 4.1 shows Fast-Forward's work sheet after completing this first step (dark green rows show accounts expected to arise from adjustments). Sometimes an account can require more than one adjustment, such as for Consulting Revenue. We add a blank line in this case. Page 128 EXHIBIT 4.1 Work Sheet Page 129 2 Step 2. Enter Adjustments Exhibit 4.1—yellow section. The second step is to enter adjustments in the Adjustments columns. The adjustments shown are the same ones shown in Exhibit 3.13. An identifying letter links the debit and credit of each adjustment. This is called keying the adjustments. After preparing a work sheet, adjustments must still be entered in a journal and posted to the ledger. The Adjustments columns provide the information for adjusting entries in the journal. 3 Step 3. Prepare Adjusted Trial Balance Exhibit 4.1—blue section. The adjusted trial balance is prepared by combining the adjustments with the unadjusted balances for each account. As an example, the Prepaid Insurance account has a $2,400 debit balance in the Unadjusted Trial Balance columns. This $2,400 debit is combined with the $100 credit in the Adjustments columns to give Prepaid Insurance a $2,300 debit in the Adjusted Trial Balance columns. The totals of the Adjusted Trial Balance columns confirm debits and credits are equal. 4 Step 4. Sort Adjusted Trial Balance Amounts to Financial Statements Exhibit 4.1—orange section. This step involves sorting account balances from the adjusted trial balance to their proper financial statement columns. Expenses go to the Income Statement Debit column, and revenues to the Income Statement Credit column. Assets and withdrawals go to the Balance Sheet & Statement of Owner's Equity Debit column. Liabilities and owner's capital go to the Balance Sheet & Statement of Owner's Equity Credit column. 5 Step 5. Total Statement Columns, Compute Income or Loss, and Balance Columns Exhibit 4.1—purple section. Each financial statement column (from step 4) is totaled. The difference between the Debit and Credit column totals of the Income Statement columns is net income or net loss. This occurs because revenues are entered in the Credit column and expenses in the Debit column. If the Credit total exceeds the Debit total, there is net income. If the Debit total exceeds the Credit total, there is a net loss. For FastForward, the Credit total exceeds

the Debit total, giving a $3,785 net income. The net income from the Income Statement columns is then entered in the Balance Sheet & Statement of Owner's Equity Credit column. Adding net income to the last Credit column means that it is to be added to owner's capital. If a loss occurs, it is added to the Debit column. This means that it is to be subtracted from owner's capital. The ending balance of owner's capital does not appear in the last two columns as a single amount, but it is computed in the statement of owner's equity using these account balances. When net income or net loss is added to the Balance Sheet & Statement of Owner's Equity column, the totals of the last two columns must balance. If they do not, one or more errors have occurred. Decision Maker FrameStockFootages/Shutterstock Entrepreneur You review the work sheet used to prepare financial statements. There is no depreciation adjustment, yet you own equipment. Does the absence of depreciation adjustment concern you? ■ Answer Preparing Financial Statements from a Work Sheet A work sheet does not substitute for financial statements. It is a tool we use to help prepare financial statements. FastForward's financial statements are shown in Exhibit 4.2. Its income statement amounts are taken from the Income Statement columns of the work sheet. Amounts for its balance sheet and its statement of owner's equity are taken from the Balance Sheet & Statement of Owner's Equity columns of the work sheet. Page 130 EXHIBIT 4.2 Financial Statements Prepared from the Work Sheet NEED-TO-KNOW 4-1 Work Sheet P1 The following 10-column work sheet contains the year-end unadjusted trial balance for Magic Company as of December 31. Complete the work sheet by entering the necessary adjustments, computing the adjusted account balances, extending the adjusted balances into the appropriate financial statement columns, and entering the amount of net income for the period. Note: The Magic, Capital account balance was $75,000 at December 31 of the prior year. Prepare and complete the work sheet, starting with the unadjusted trial balance and including adjustments based on the following. The company has earned $9,000 in revenue that was not received or recorded at year-end. The company incurred $2,000 in salary expense that was not yet recorded or paid at year-end. Assume it records salary not yet paid as part of accounts payable. The long-term note payable was issued on December 31 this year. Thus, no interest has yet accrued on this loan. Use information from the completed work sheet in part 1 to prepare adjusting journal entries. Page 131 Prepare the income statement and the statement of owner's equity for the year ended December 31 and the unclassified balance sheet at December 31. Part 1 Solution Part 2 Solution Table Summary: Journal entries with date, account name, and debit amount on one line, with indented account name and credit amount on the next line. (a) Dec. 31 Accounts Receivable 9,000 Services revenue 9,000 (b) Dec. 31 Salaries Expense 2,000 Accounts Payable 2,000 (c) No entry required. Part 3 Solution Do More: QS 4-1, QS 4-2, QS 4-3, QS 4-4, E 4-1, E 4-2, E 4-3, E 4-4



FastForward
Work Sheet
For Month Ended December 31, 2021

No.	Account	(1) Unadjusted Trial Balance Dr.	Unadjusted Trial Balance Cr.	(2) Adjustments Dr.	Adjustments Cr.	(3) Adjusted Trial Balance Dr.	Adjusted Trial Balance Cr.	Income Statement Dr.	Income Statement Cr.	(4) Balance Sheet & Statement of Owner's Equity Dr.	Balance Sheet & Statement of Owner's Equity Cr.
101	Cash	4,275				4,275				4,275	
106	Accounts receivable			(f) 1,800		1,800				1,800	
126	Supplies	9,720			(b) 1,050	8,670				8,670	
128	Prepaid insurance	2,400			(a) 100	2,300				2,300	
167	Equipment	26,000				26,000				26,000	
168	Accumulated depreciation—Equipment				(c) 300		300				300
201	Accounts payable		6,200				6,200				6,200
209	Salaries payable				(e) 210		210				210
236	Unearned consulting revenue		3,000	(d) 250			2,750				2,750
301	C. Taylor, Capital		30,000				30,000				30,000
302	C. Taylor, Withdrawals	200				200				200	
403	Consulting revenue		5,800		(d) 250		7,850		7,850		
					(f) 1,800						
406	Rental revenue		300				300		300		
612	Depreciation expense—Equipment			(c) 300		300		300			
622	Salaries expense	1,400		(e) 210		1,610		1,610			
637	Insurance expense			(a) 100		100		100			
640	Rent expense	1,000				1,000		1,000			
652	Supplies expense			(b) 1,050		1,050		1,050			
690	Utilities expense	305				305		305			
	Totals	45,300	45,300	3,710	3,710	47,610	47,610	4,365	8,150	43,245	39,460
	Net income	(5)						3,785			3,785
	Totals							8,150	8,150	43,245	43,245

(1a) List all accounts from the ledger; accounts necessary to make accounting adjustments are shaded in dark green.

(1b) Enter all amounts available from ledger accounts. Column totals must be equal.

(2) Enter adjustment amounts and use letters to cross-reference debit and credit adjustments. Column totals must be equal.

(3) Combine unadjusted trial balance amounts with the adjustments to get the adjusted trial balance amounts. Column totals must be equal.

(4a) Extend all revenue and expense amounts to the income statement columns.

(4b) Extend all asset, liability, capital, and withdrawals amounts to these columns.

(5a) Enter two new lines for the (1) Net income or loss. (2) Totals.

(5b) First "Totals" row for income statement columns differ by the amount of net income or net loss.

(5c) Net income (loss) is extended to the credit (debit) column.

(5d) Ending balance of owner's capital is computed in the statement of owner's equity.

FASTFORWARD
Income Statement
For Month Ended December 31, 2021

Revenues		
Consulting revenue	$ 7,850	
Rental revenue	300	
Total revenues		$ 8,150
Expenses		
Depreciation expense—Equipment	300	
Salaries expense	1,610	
Insurance expense	100	
Rent expense	1,000	
Supplies expense	1,050	
Utilities expense	305	
Total expenses		4,365
Net income		$ 3,785

FASTFORWARD
Statement of Owner's Equity
For Month Ended December 31, 2021

C. Taylor, Capital, December 1		$ 0
Add: Investments by owner	$30,000	
Net income	3,785	33,785
		33,785
Less: Withdrawals by owner		200
C. Taylor, Capital, December 31		$33,585

FASTFORWARD
Balance Sheet
December 31, 2021

Assets		
Cash		$ 4,275
Accounts receivable		1,800
Supplies		8,670
Prepaid insurance		2,300
Equipment	$26,000	
Accumulated depreciation—Equipment	(300)	25,700
Total assets		$42,745
Liabilities		
Accounts payable		$ 6,200
Salaries payable		210
Unearned consulting revenue		2,750
Total liabilities		9,160
Equity		
C. Taylor, Capital		33,585
Total liabilities and equity		$42,745

		Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet and Statement of Owner's Equity	
No.	**Account Title**	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
101	Cash	13,000									
106	Accounts receivable	8,000									
183	Land	85,000									
201	Accounts payable		10,000								
251	Long-term notes payable		33,000								
301	Magic, Capital		75,000								
302	Magic, Withdrawals	20,000									
403	Services revenue		70,000								
622	Salaries expense	54,000									
650	Office supplies expense	8,000									
	Totals	188,000	188,000								
	Net income										
	Totals										

		Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet and Statement of Owner's Equity	
No.	Account Title	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101	Cash	13,000				13,000				13,000	
106	Accounts receivable	8,000		(a)9,000		17,000				17,000	
183	Land	85,000				85,000				85,000	
201	Accounts payable		10,000		(b)2,000		12,000				12,000
251	Long-term notes payable		33,000				33,000				33,000
301	Magic, Capital		75,000				75,000				75,000
302	Magic, Withdrawals	20,000				20,000				20,000	
403	Services revenue		70,000		(a)9,000		79,000		79,000		
622	Salaries expense	54,000		(b)2,000		56,000		56,000			
650	Office supplies expense	8,000				8,000		8,000			
	Totals	188,000	188,000	11,000	11,000	199,000	199,000	64,000	79,000	135,000	120,000
	Net income							15,000			15,000
	Totals							79,000	79,000	135,000	135,000

MAGIC COMPANY
Income Statement
For Year Ended December 31

Revenue		
Services revenue		$79,000
Expenses		
Salaries expense	$56,000	
Office supplies expense	8,000	
Total expenses		64,000
Net income		$15,000

MAGIC COMPANY
Statement of Owner's Equity
For Year Ended December 31

Magic, Capital, December 31, prior year	$75,000
Add: Investments by owner	0
Net income	15,000
	90,000
Less: Withdrawals by owner	20,000
Magic, Capital, December 31, current year	$70,000

MAGIC COMPANY
Balance Sheet
December 31

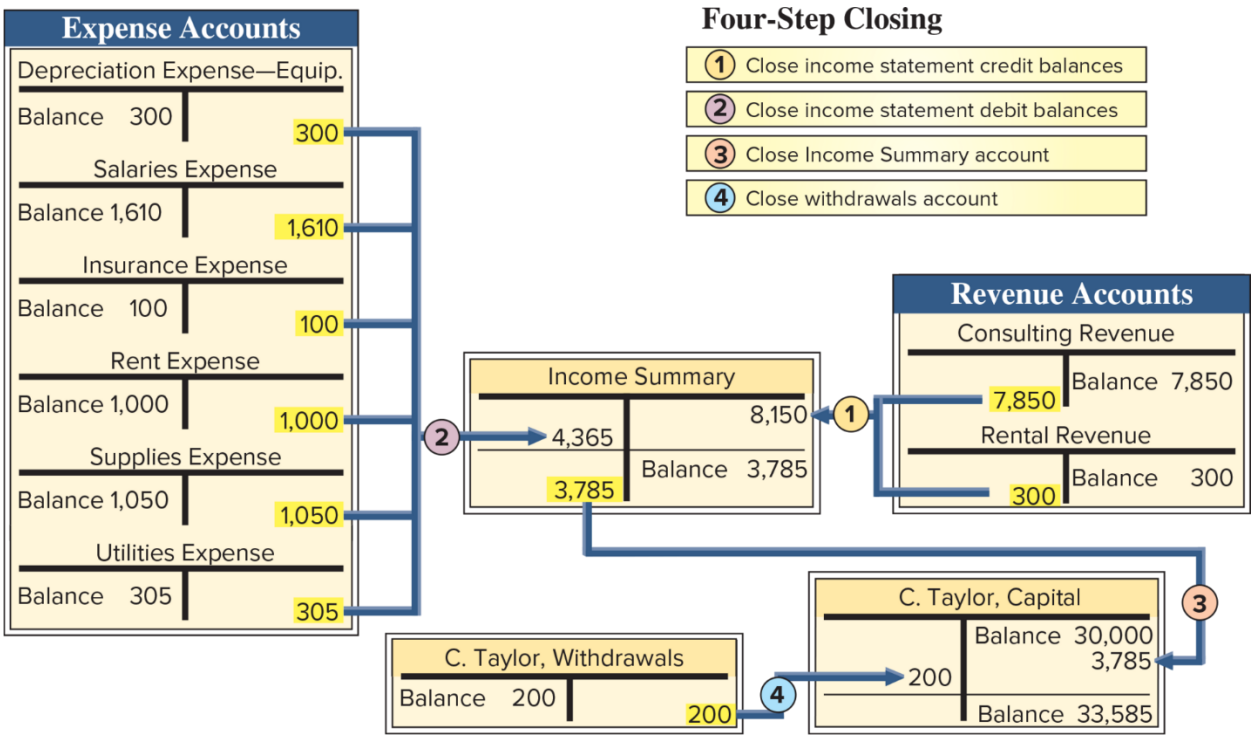
Assets	
Cash	$ 13,000
Accounts receivable	17,000
Land	85,000
Total assets	$115,000
Liabilities	
Accounts payable	$ 12,000
Long-term notes payable	33,000
Total liabilities	45,000
Equity	
Magic, Capital	70,000
Total liabilities and equity	$115,000

CLOSING PROCESS P2 Prepare closing entires and a post-closing trial balance The closing process occurs at the end of an accounting period after financial statements are completed. In the closing process we (1) identify accounts for closing, (2) record and post the closing entries, and (3) prepare a post-closing trial balance. The closing process has two purposes. First, it resets revenue, expense, and withdrawals account balances to zero at the end of each period. This is done so that these accounts can properly measure

income and withdrawals for the next period. Second, it updates the balance in the owner's capital account to match the amount reported on the statement of owner's equity and the balance sheet. Page 132 Temporary and Permanent Accounts Temporary accounts relate to one accounting period. They include all income statement accounts, the owner withdrawals account, and the Income Summary account. They are temporary because such accounts are used for a period and then closed at period-end. The closing process applies only to temporary accounts. Permanent accounts report on activities related to one or more future accounting periods. They include asset, liability, and owner capital accounts (all balance sheet accounts). Permanent accounts are not closed each period and carry their ending balance into future periods. Recording Closing Entries Closing entries transfer the end-of-period balances in revenue, expense, and withdrawals accounts to the permanent capital account. Closing entries are necessary at the end of each period after financial statements are prepared because Revenue, expense, and withdrawals accounts must begin each period with zero balances. Owner's capital must reflect prior periods' revenues, expenses, and withdrawals. Point: If Apple did not make closing entries, prior year revenue from iPhone sales would be included with current year revenue. An income statement reports revenues and expenses for an accounting period. Owner withdrawals are also reported for an accounting period. Because revenue, expense, and withdrawals accounts record information separately for each period, they must start each period with zero balances. Exhibit 4.3 uses the adjusted account balances of FastForward (from the Adjusted Trial Balance columns of Exhibit 4.1 or from the left side of Exhibit 4.4) to show the four steps to close its temporary accounts. EXHIBIT 4.3 Four-Step Closing Point: C. Taylor, Capital is the only permanent account in Exhibit 4.3—meaning it is not closed, but it does have Income Summary closed to it. EXHIBIT 4.4 Preparing Closing Entries 1 2 To close revenue and expense accounts, we transfer their balances to Income Summary. Income Summary is a temporary account only used for the closing process that contains a credit for total revenues (and gains) and a debit for total expenses (and losses). Page 133 3 The Income Summary balance, which equals net income or net loss, is transferred to the capital account. 4 The withdrawals account balance is transferred to the capital account. After closing entries are posted, the revenue, expense, withdrawals, and Income Summary accounts have zero balances and are said to be closed or cleared. Exhibit 4.4 shows the four closing journal entries to apply the closing process of Exhibit 4.3. Step 1: Close Credit Balances in Revenue Accounts to Income Summary First, we close revenues to Income Summary. We bring accounts with credit balances to zero by debiting them. For FastForward, this is step 1 in Exhibit 4.4. The $8,150 credit entry to Income Summary equals total revenues for the period. This leaves revenue accounts with zero balances, and they are now ready to record revenues for next period. Step 2: Close Debit Balances in Expense Accounts to Income Summary Second, we close expenses to Income Summary.

We bring expense accounts' debit balances to zero by crediting them. With a balance of zero, these accounts are ready to record expenses for next period. This second closing entry for FastForward is step 2 in Exhibit 4.4. Step 3: Close Income Summary to Owner's Capital After steps 1 and 2, the balance of Income Summary equals December net income of $3,785 ($8,150 credit less $4,365 debit). The third closing entry transfers the balance of the Income Summary account to the capital account. This entry closes the Income Summary account—see step 3 in Exhibit 4.4. Step 4: Close Withdrawals Account to Owner's Capital The fourth closing entry transfers any debit balance in the withdrawals account to the owner's capital account—see step 4 in Exhibit 4.4. This entry gives the withdrawals account a zero balance, and the account is now ready to record next period's withdrawals. Exhibit 4.5 shows the entire ledger of FastForward as of December 31 after adjusting and closing entries are posted. The temporary accounts (revenues, expenses, and withdrawals) have ending balances equal to zero. Page 134 EXHIBIT 4.5 General Ledger after the Closing Process for FastForward Page 135 Post-Closing Trial Balance A post-closing trial balance is a list of permanent accounts and their balances after all closing entries. Only balance sheet (permanent) accounts are on a post-closing trial balance. A post-closing trial balance verifies that (1) total debits equal total credits for permanent accounts and (2) all temporary accounts have zero balances. FastForward's post-closing trial balance is in Exhibit 4.6 and often is the last step in the accounting process. EXHIBIT 4.6 Post-Closing Trial Balance Table Summary: Income statements lists accounts in the first column. Column 2 contains debit entries and rows 6 through 10 are blank. Column 3 contains credit entries and rows 1 through 5 are blank. FASTFORWARD Post-Closing Trial Balance December 31, 2021 Debit Credit Cash $ 4,275 Accounts receivable 1,800 Supplies 8,670 Prepaid insurance 2,300 Equipment 26,000 Accumulated depreciation—Equipment $ 300 Accounts payable 6,200 Salaries payable 210 Unearned consulting revenue 2,750 C. Taylor, Capital 33,585 Totals $43,045 $43,045 Point: C. Taylor, Capital is computed as $30,000 + $3,785 − $200. Decision Maker nd3000/Shutterstock Staff Accountant A friend shows you the post-closing trial balance she is working on. You review the statement and see a line item for rent expense. How do you know that an error exists? ■ Answer NEED-TO-KNOW 4-2 Closing Entries P2 Use the following adjusted account balances for Magic Company to prepare its closing entries. Table Summary: A table. Account Title Debit Credit Cash $ 13,000 Accounts receivable 17,000 Land 85,000 Accounts payable $ 12,000 Long-term notes payable 33,000 Magic, Capital 75,000 Magic, Withdrawals 20,000 Services revenue 79,000 Salaries expense 56,000 Supplies expense 8,000 Totals $199,000 $199,000 Solution Table Summary: Journal entries with date, account name and debit amount on first line; indented account name and credit amount on the next line; description of transaction on last line of entry. Dec. 31

Services revenue 79,000 Income Summary 79,000 Close revenue account. Dec. 31 Income Summary 64,000 Salaries Expense 56,000 Office Supplies Expense 8,000 Close expense accounts. Dec. 31 Income Summary 15,000 Magic, Capital 15,000 Close Income Summary. Dec. 31 Magic, Capital 20,000 Magic, Withdrawals 20,000 Close Withdrawals account. Do More: QS 4-6, QS 4-7, QS 4-8, QS 4-9, E 4-6, E 4-7, E 4-8, E 4-9



FASTFORWARD
Adjusted Trial Balance
December 31, 2021

	Debit	Credit
Cash	$ 4,275	
Accounts receivable	1,800	
Supplies	8,670	
Prepaid insurance	2,300	
Equipment	26,000	
Accumulated depreciation—Equipment		$ 300
Accounts payable		6,200
Salaries payable		210
Unearned consulting revenue		2,750
C. Taylor, Capital		30,000
C. Taylor, Withdrawals	200	
Consulting revenue		7,850
Rental revenue		300
Depreciation expense—Equipment	300	
Salaries expense	1,610	
Insurance expense	100	
Rent expense	1,000	
Supplies expense	1,050	
Utilities expense	305	
Totals	$47,610	$47,610

General Journal

Step 1:			
Dec. 31	Consulting Revenue	7,850	
	Rental Revenue	300	
	Income Summary		8,150
	Close revenue accounts.		
Step 2:			
Dec. 31	Income Summary	4,365	
	Depreciation Expense—Equipment		300
	Salaries Expense		1,610
	Insurance Expense		100
	Rent Expense		1,000
	Supplies Expense		1,050
	Utilities Expense		305
	Close expense accounts.		
Step 3:			
Dec. 31	Income Summary	3,785	
	C. Taylor, Capital		3,785
	Close Income Summary account.		
Step 4:			
Dec. 31	C. Taylor, Capital	200	
	C. Taylor, Withdrawals		200
	Close Withdrawals account.		

Asset Accounts

Cash — Acct. No. 101

Date	Explan.	PR	Debit	Credit	Balance
Dec. 1	(1)	G1	30,000		30,000
2	(2)	G1		2,500	27,500
3	(3)	G1		26,000	1,500
5	(5)	G1	4,200		5,700
6	(13)	G1		2,400	3,300
12	(6)	G1		1,000	2,300
12	(7)	G1		700	1,600
22	(9)	G1	1,900		3,500
24	(10)	G1		900	2,600
24	(11)	G1		200	2,400
26	(12)	G1	3,000		5,400
26	(14)	G1		120	5,280
26	(15)	G1		305	4,975
26	(16)	G1		700	**4,275**

Accounts Receivable — Acct. No. 106

Date	Explan.	PR	Debit	Credit	Balance
Dec. 12	(8)	G1	1,900		1,900
22	(9)	G1		1,900	0
31	**Adj.(f)**	**G1**	**1,800**		**1,800**

Supplies — Acct. No. 126

Date	Explan.	PR	Debit	Credit	Balance
Dec. 2	(2)	G1	2,500		2,500
6	(4)	G1	7,100		9,600
26	(14)	G1	120		9,720
31	**Adj.(b)**	**G1**		**1,050**	**8,670**

Prepaid Insurance — Acct. No. 128

Date	Explan.	PR	Debit	Credit	Balance
Dec. 6	(13)	G1	2,400		2,400
31	**Adj.(a)**	**G1**		**100**	**2,300**

Equipment — Acct. No. 167

Date	Explan.	PR	Debit	Credit	Balance
Dec. 3	(3)	G1	26,000		**26,000**

Accumulated Depreciation—Equipment — Acct. No. 168

Date	Explan.	PR	Debit	Credit	Balance
Dec. 31	**Adj.(c)**	**G1**		**300**	**300**

Revenue and Expense Accounts (Including Income Summary)

Consulting Revenue — Acct. No. 403

Date	Explan.	PR	Debit	Credit	Balance
Dec. 5	(5)	G1		4,200	4,200
12	(8)	G1		1,600	5,800
31	Adj.(d)	G1		250	6,050
31	Adj.(f)	G1		1,800	7,850
31	Clos.(1)	G1	7,850		0

Rental Revenue — Acct. No. 406

Date	Explan.	PR	Debit	Credit	Balance
Dec. 12	(8)	G1		300	300
31	Clos.(1)	G1	300		0

Depreciation Expense—Equipment — Acct. No. 612

Date	Explan.	PR	Debit	Credit	Balance
Dec. 31	Adj.(c)	G1	300		300
31	Clos.(2)	G1		300	0

Salaries Expense — Acct. No. 622

Date	Explan.	PR	Debit	Credit	Balance
Dec. 12	(7)	G1	700		700
26	(16)	G1	700		1,400
31	Adj.(e)	G1	210		1,610
31	Clos.(2)	G1		1,610	0

Insurance Expense — Acct. No. 637

Date	Explan.	PR	Debit	Credit	Balance
Dec. 31	Adj.(a)	G1	100		100
31	Clos.(2)	G1		100	0

Rent Expense — Acct. No. 640

Date	Explan.	PR	Debit	Credit	Balance
Dec. 12	(6)	G1	1,000		1,000
31	Clos.(2)	G1		1,000	0

Supplies Expense — Acct. No. 652

Date	Explan.	PR	Debit	Credit	Balance
Dec. 31	Adj.(b)	G1	1,050		1,050
31	Clos.(2)	G1		1,050	0

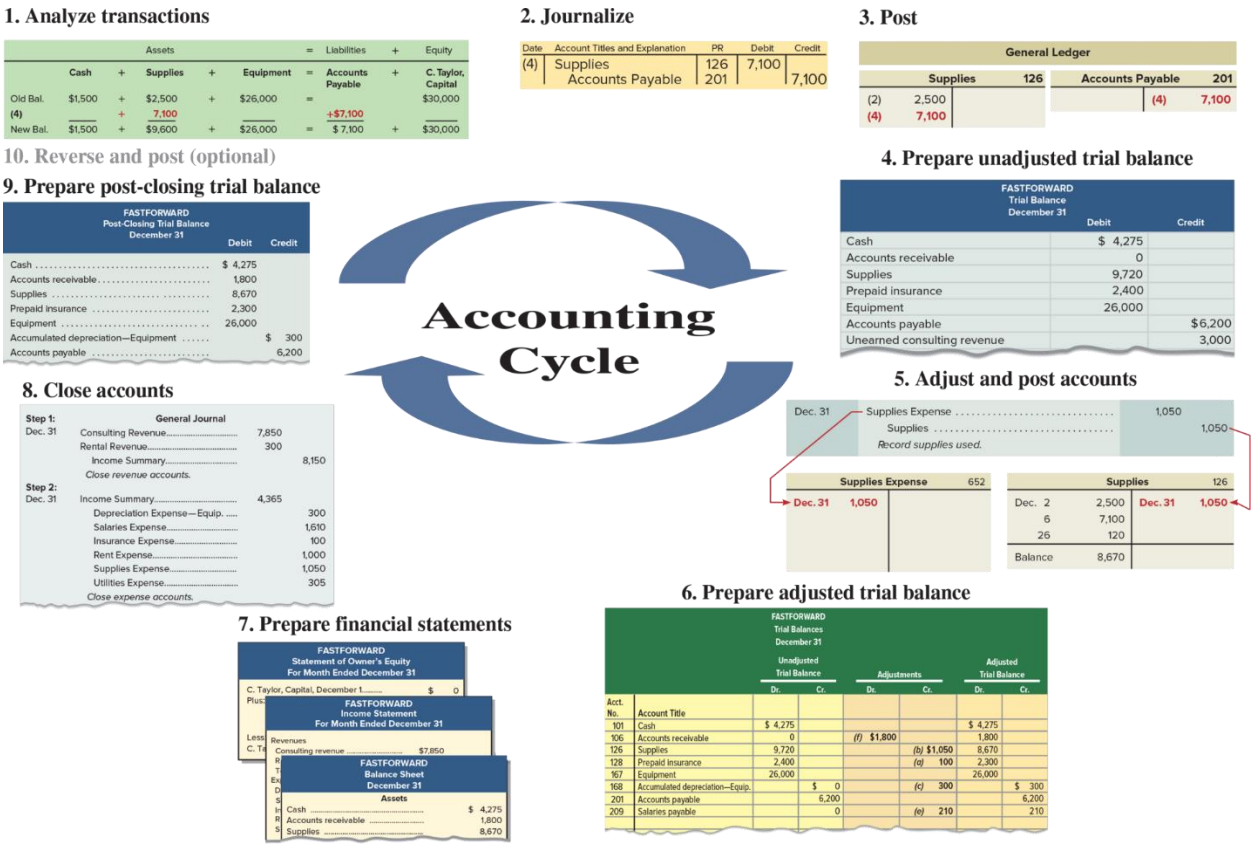
Utilities Expense — Acct. No. 690

Date	Explan.	PR	Debit	Credit	Balance
Dec. 26	(15)	G1	305		305
31	Clos.(2)	G1		305	0

Income Summary — Acct. No. 901

Date	Explan.	PR	Debit	Credit	Balance
Dec. 31	Clos.(1)	G1		8,150	8,150
31	Clos.(2)	G1	4,365		3,785
31	Clos.(3)	G1	3,785		0

Page 136 ACCOUNTING CYCLE The accounting cycle is the steps in preparing financial statements. It is called a cycle because the steps are repeated each reporting period. Exhibit 4.7 shows the 10 steps in the cycle. Steps 1 through 3 occur regularly as a company enters into transactions. Steps 4 through 9 are done at the end of a period. Reversing entries in step 10 are optional and are explained in Appendix 4A. EXHIBIT 4.7 Steps in the Accounting Cycle* Explanations 1. Analyze transactions Analyze transactions to prepare for journalizing. 2. Journalize Record accounts, including debits and credits, in a journal. 3. Post Transfer debits and credits from the journal to the ledger. 4. Prepare unadjusted trial balance Summarize unadjusted ledger accounts and amounts. 5. Adjust and post Record adjustments to bring account balances up to date; then journalize and post. 6. Prepare adjusted trial balance Summarize adjusted ledger accounts and amounts. 7. Prepare financial statements Use adjusted trial balance to prepare financial statements. 8. Close accounts Journalize and post entries to close temporary accounts. 9. Prepare post-closing trial balance Test clerical accuracy of the closing procedures. 10. Optional: Reverse and post Reverse certain adjustments in the next period—optional step; see Appendix 4A. * Steps 4, 6, and 9 can be done on a work sheet. A work sheet is useful in planning adjustments, but adjustments (step 5) must always be journalized and posted. Steps 3, 4, 6, and 9 are automatic with a computerized system.



CLASSIFIED BALANCE SHEET C1 Explain and prepare a classified balance sheet. This section describes a classified balance sheet. An unclassified balance sheet broadly groups accounts into assets, liabilities, and equity. One example is FastForward's balance sheet in Exhibit 4.2. A classified balance sheet organizes assets and liabilities into subgroups. Page 137 Classification Structure A classified balance sheet typically contains the categories in Exhibit 4.8 (there is no required layout). An important classification is the separation between current (short-term) and noncurrent (long-term) for both assets and liabilities. Current items are expected to come due (either collected or owed) within one year or the company's operating cycle, whichever is longer. The operating cycle is the time span from when cash is used to acquire goods and services until cash is received from the sale of goods and services. Most operating cycles are less than one year, which means most companies use a one-year period to classify current and noncurrent items. To make it easy, assume an operating cycle of one year, unless we say otherwise. A balance sheet lists current assets before noncurrent assets and current liabilities before noncurrent liabilities. Current assets and current liabilities are listed in order of how quickly they will be converted to, or paid in, cash. EXHIBIT 4.8 Typical Categories in a Classified Balance Sheet Table Summary: Rows 4 and 5 of column 2 are empty. Assets Liabilities and Equity Current

assets Current liabilities Noncurrent assets Noncurrent liabilities Long-term investments Equity Plant assets Intangible assets Classification Categories The balance sheet for Snowboarding Components in Exhibit 4.9 shows the typical categories. Its assets are classified as either current or noncurrent. Its noncurrent assets include three main categories: long-term investments, plant assets, and intangible assets. Its liabilities are classified as either current or long-term. Not all companies use the same categories. Jarden, a producer of snowboards, reported a balance sheet with five asset classes: current assets; property, plant, and equipment; goodwill; intangibles; and other assets. EXHIBIT 4.9 Example of a Classified Balance Sheet Table Summary: The left half of the balance sheet provides categories of assets with particular accounts and amounts listed and subtotaled. The right half provides categories of liabilities with particular accounts and amounts listed. Equity account is also listed and a line provided for right-side balance sheet total. SNOWBOARDING COMPONENTS Balance Sheet December 31, 2021 Assets Current assets Cash $ 6,500 Accounts receivable 6,500 Merchandise inventory 27,500 Prepaid insurance 2,400 Total current assets $ 42,900 Long-term investments Notes receivable (due in three years) 1,500 Investments in stocks and bonds 66,000 Total long-term investments 67,500 Plant assets Equipment 203,200 Less accumulated depreciation 53,000 150,200 Land 73,200 Total plant assets 223,400 Intangible assets 10,000 Total assets $343,800 Liabilities Current liabilities Accounts payable $ 15,300 Wages payable 3,200 Unearned revenue 10,500 Total current liabilities $ 29,000 Long-term liabilities Notes payable (due in ten years) 150,000 Total long-term liabilities 150,000 Total liabilities 179,000 Equity T. Hawk, Capital 164,800 Total liabilities and equity $343,800 Current Assets Current assets are cash and other resources that are expected to be sold, collected, or used within one year or the company's operating cycle, whichever is longer. Examples are cash, short-term investments, accounts receivable, short-term notes receivable, merchandise inventory (goods for sale), and prepaid expenses. Long-Term Investments Long-term (or noncurrent) investments include notes receivable and investments in stocks and bonds when they are expected to be held for more than the longer of one year or the operating cycle. Page 138 Plant Assets Plant assets are tangible assets that are both long-lived and used to produce or sell products and services. Examples are equipment, machinery, buildings, and land that are used to produce or sell products and services. Plant assets are also called property, plant and equipment (PP&E) or fixed assets. Intangible Assets Intangible assets are long-term assets that benefit business operations but lack physical form. Examples are patents, trademarks, copyrights, franchises, and goodwill. Their value comes from the privileges or rights granted to or held by the owner. Purestock/SuperStock Current Liabilities Current liabilities are liabilities due to be paid or settled within one year or the operating cycle, whichever is longer. They usually are settled

by paying out cash. Current liabilities include accounts payable, wages payable, taxes payable, interest payable, and unearned revenues. Also, any portion of a long-term liability due to be paid within one year or the operating cycle, whichever is longer, is a current liability. Long-Term Liabilities Long-term liabilities are liabilities not due within one year or the operating cycle, whichever is longer. Notes payable, mortgages payable, bonds payable, and lease obligations are common long-term liabilities. Equity Equity is the owner's claim on assets. For a proprietorship, this claim is reported in the equity section with an owner's capital account. Equity is not separated into current and noncurrent categories. NEED-TO-KNOW 4-3 Classified Balance Sheet C1 Use the following account balances from Magic Company's post-closing trial balance to prepare its classified balance sheet as of December 31. Cash $13,000 Accounts receivable 17,000 Land 85,000 Accounts payable 12,000 Long-term notes payable 33,000 Magic, Capital 70,000 Solution Table Summary: The left half of the balance sheet provides categories of assets with particular accounts and amounts listed, subtotaled, and totaled. The right half provides categories of liabilities with particular accounts and amounts listed, subtotaled, and totaled. Equity account is also listed and an amount provided for right-side balance sheet total. MAGIC COMPANY Balance Sheet December 31 Assets Current assets Cash $ 13,000 Accounts receivable 17,000 Total current assets 30,000 Plant assets Land 85,000 Total plant assets 85,000 Total assets $ 115,000 Liabilities Current liabilities Accounts payable $ 12,000 Total current liabilities 12,000 Long-term notes payable 33,000 Total liabilities 45,000 Equity Magic, Capital* 70,000 Total liabilities and equity $115,000 *Computed as $75,000 beginning balance + $15,000 net income (from NTK 4-1) − $20,000 withdrawals. Do More: QS 4-12, QS 4-15, QS 4-17, E 4-12, E 4-13, P 4-3

Page 139 Decision Analysis Current Ratio A1 Compute and analyze the current ratio An important use of financial statements is to help assess a company's ability to pay its debts in the near future. Such analysis affects decisions by suppliers when allowing a company to buy on credit. It also affects decisions by creditors when lending money to a company, including loan terms such as interest rate and due date. The current ratio is one measure of a company's ability to pay its short-term obligations. It is defined in Exhibit 4.10. EXHIBIT 4.10 Current Ratio Costco's current ratio for each of the last three years is in Exhibit 4.11. A current ratio of over 1.0 means that current obligations can be covered with current assets. For the most recent three years, Costco's current ratio has been slightly above or slightly below 1.0. This means Costco could face challenges in covering current liabilities. Although Costco has a better ratio than Walmart in each of the last three years, management must continue to monitor current assets and liabilities. EXHIBIT 4.11 Computation and Analysis Using Current Ratio Table Summary: A table. Company $

millions Current Year 1 Year Ago 2 Years Ago Costco Current assets $23,485 $20,289 $17,317 Current liabilities $23,237 $19,926 $17,495 Current ratio 1.01 1.02 0.99 Walmart Current ratio 0.80 0.76 0.86 Decision Maker Ingram Publishing Analyst You are analyzing a dirt bike company's ability to meet upcoming loan payments. You compute its current ratio as 1.2. You find that a major portion of accounts receivable is due from one client who has not made any payments in the past 12 months. Removing this receivable from current assets lowers the current ratio to 0.7. What do you conclude? ■ Answer

NEED-TO-KNOW 4-4 COMPREHENSIVE Completing a Work Sheet, Recording Closing Entries, and Preparing Financial Statements The partial work sheet of Midtown Repair Company at December 31 follows. Page 140 Required Complete the work sheet by extending the adjusted trial balance totals to the appropriate financial statement columns. Prepare closing entries for Midtown Repair Company. Set up the Income Summary and the C. Trout, Capital accounts in the general ledger (in balance column format) and post the closing entries to these accounts. Determine the balance of the C. Trout, Capital account to be reported on the December 31 current year balance sheet. Prepare an income statement and a statement of owner's equity for the year-ended December 31. Prepare a classified balance sheet as of December 31. The balance in C. Trout, Capital on December 31 of the prior year was $178,500, and there are no owner investments during the year. SOLUTION Completing the work sheet. Closing entries. Table Summary: Journal entries with date, account name and debit amount on first line; indented account name and credit amount on the next line; description of transaction on last line of entry. First entry has two debits and one credit. Second entry has one debit and five credits.; Journal entries with date, account name, and debit amount on one line, with account name and credit amount on indented line. A final line for the entry provides a description. Dec. 31 Services Revenue 180,800 Interest Revenue 7,500 Income Summary 188,300 Close revenue accounts. Dec. 31 Income Summary 173,200 Depreciation Expense—Equipment 28,500 Wages Expense 85,000 Rent Expense 48,000 Insurance Expense 6,000 Interest Expense 5,700 Close expense accounts. Dec. 31 Income Summary 15,100 C. Trout, Capital 15,100 Close Income Summary account. Dec. 31 C. Trout, Capital 30,000 C. Trout, Withdrawals 30,000 Close Withdrawals account. Set up the Income Summary and the Capital ledger accounts and post the closing entries. Table Summary: In table under column headings, column 3 is blank; rows 1 and 2 of column 3 are blank; and rows 1, 3, and 4 of column 4 are blank. Income Summary Account No. 901 Date Explanation PR Debit Credit Balance Jan. 1 Beginning balance 0 Dec. 31 Close revenue accounts 188,300 188,300 31 Close expense accounts 173,200

15,100 31 Close Income Summary 15,100 0 Table Summary: In table under column headings, column 3 is blank; rows 1 and 2 of column 3 are blank; and rows 1 and 3 of column 4 are blank. C. Trout, Capital Account No. 301 Date Explanation PR Debit Credit Balance Jan. 1 Beginning balance 178,500 Dec. 31 Close Income Summary 15,100 193,600 31 Close C. Trout, Withdrawals 30,000 163,600 Page 141 The final capital balance of $163,600 (from part 3) will be reported on the December 31 current year balance sheet. The final capital balance reflects the increase from net income and the decrease from owner's withdrawals.

MIDTOWN REPAIR COMPANY
Income Statement
For Year Ended December 31

Revenues		
Services revenue	$180,800	
Interest revenue	7,500	
Total revenues		$188,300
Expenses		
Depreciation expense—Equipment	28,500	
Wages expense	85,000	
Rent expense	48,000	
Insurance expense	6,000	
Interest expense	5,700	
Total expenses		173,200
Net income		$ 15,100

MIDTOWN REPAIR COMPANY
Statement of Owner's Equity
For Year Ended December 31

C. Trout, Capital, December 31, prior year			$178,500
Add: Investments by owner		$ 0	
Net income		15,100	15,100
			193,600
Less: Withdrawals by owner			30,000
C. Trout, Capital, December 31, current year			$163,600

MIDTOWN REPAIR COMPANY
Balance Sheet
December 31

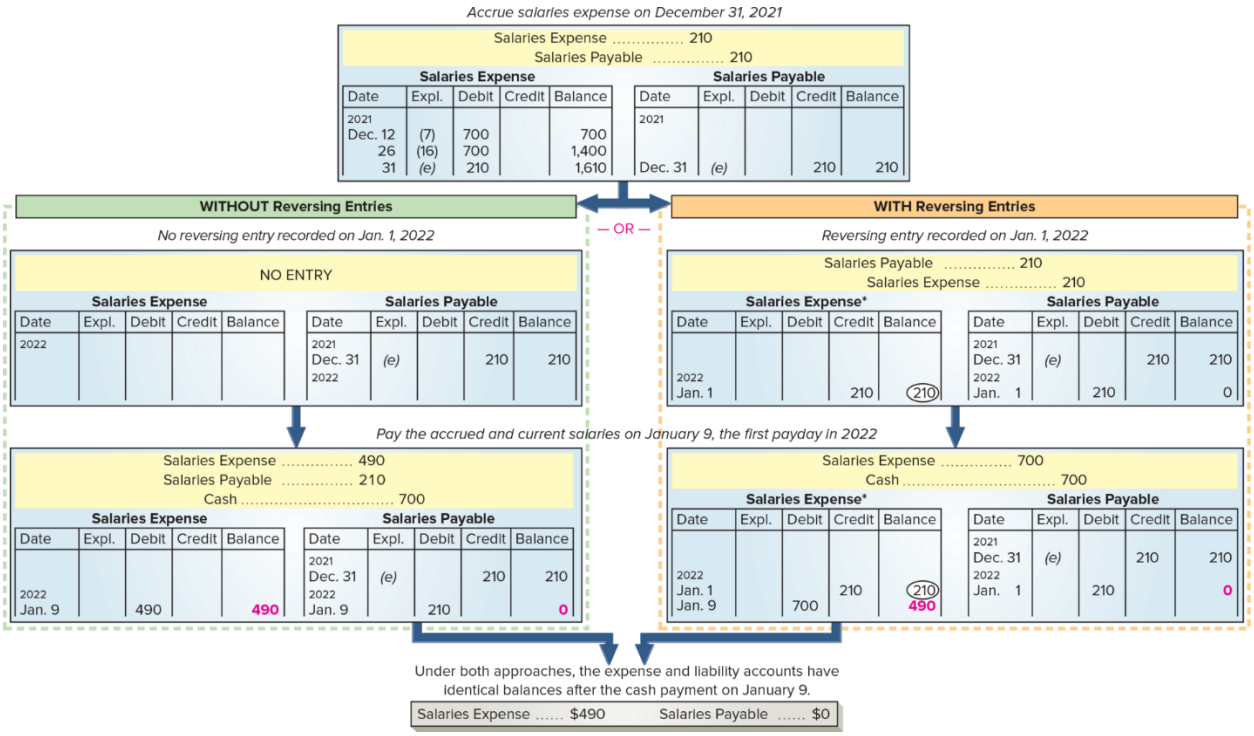
Assets		
Current assets		
Cash		$ 95,600
Prepaid insurance		16,000
Prepaid rent		4,000
Total current assets		115,600
Long-term investments		
Notes receivable		50,000
Plant assets		
Equipment	$170,000	
Less: Accumulated depreciation—Equipment	(57,000)	
Total plant assets		113,000
Total assets		$278,600
Liabilities		
Current liabilities		
Accounts payable		$ 52,000
Long-term liabilities		
Long-term notes payable		63,000
Total liabilities		115,000
Equity		
C. Trout, Capital		163,600
Total liabilities and equity		$278,600

	Adjusted Trial Balance		Income Statement		Balance Sheet and Statement of Owner's Equity	
Account Title	**Debit**	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**
Cash	95,600					
Prepaid insurance	16,000					
Prepaid rent	4,000					
Notes receivable (due in 5 years)	50,000					
Equipment	170,000					
Accumulated depreciation—Equipment		57,000				
Accounts payable		52,000				
Notes payable (due in 9 years)		63,000				
C. Trout, Capital		178,500				
C. Trout, Withdrawals	30,000					
Services revenue		180,800				
Interest revenue		7,500				
Depreciation expense—Equipment	28,500					
Wages expense	85,000					
Rent expense	48,000					
Insurance expense	6,000					
Interest expense	5,700					
Totals	538,800	538,800				

	Adjusted Trial Balance		Income Statement		Balance Sheet and Statement of Owner's Equity	
Account Title	**Debit**	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**
Cash	95,600				95,600	
Prepaid insurance	16,000				16,000	
Prepaid rent	4,000				4,000	
Notes receivable (due in 5 years)	50,000				50,000	
Equipment	170,000				170,000	
Accumulated depreciation—Equipment		57,000				57,000
Accounts payable		52,000				52,000
Notes payable (due in 9 years)		63,000				63,000
C. Trout, Capital		178,500				178,500
C. Trout, Withdrawals	30,000				30,000	
Services revenue		180,800		180,800		
Interest revenue		7,500		7,500		
Depreciation expense—Equipment	28,500		28,500			
Wages expense	85,000		85,000			
Rent expense	48,000		48,000			
Insurance expense	6,000		6,000			
Interest expense	5,700		5,700			
Totals	538,800	538,800	173,200	188,300	365,600	350,500
Net income			15,100			15,100
Totals			188,300	188,300	365,600	365,600

APPENDIX 4A: Reversing Entries P3 Prepare reversing entries and explain their purpose. Reversing entries are optional. They are dated the first day of the next accounting period, and they reverse the debits and credits of adjusting entries using the same accounts and amounts. Reversing entries are used for adjusting entries involving accrued revenues and accrued expenses. The purpose of reversing entries is to simplify recordkeeping. Exhibit 4A.1 shows an example of FastForward's reversing entries. The top of the exhibit shows the adjusting entry FastForward recorded on December 31 for its employee's earned but unpaid salary. The entry recorded three days' salary of $210, which increased December's total salary expense to $1,610. The entry also recognized a liability of $210. The expense is reported on December's income statement. The expense account is then closed. The ledger on January 1, 2022, shows a $210 liability and a zero balance in the Salaries Expense account. At this point, the choice is made between using or not using reversing entries. Accounting without Reversing Entries The path down the left side of Exhibit 4A.1 is described in the chapter. To summarize, when the next payday occurs on January 9, we

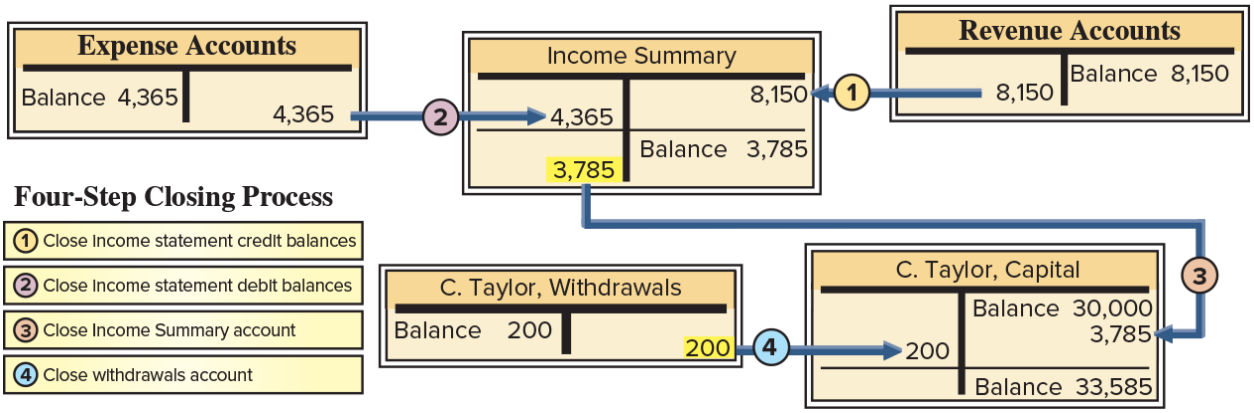
record payment with a compound entry that debits both the expense and liability accounts and credits Cash. Posting that entry creates a $490 balance in the expense account and reduces the liability account balance to zero because the payable has been settled. Page 142 EXHIBIT 4A.1 Reversing Entries for an Accrued Expense *Circled numbers in the Balance column indicate abnormal balances. Accounting with Reversing Entries The right side of Exhibit 4A.1 shows reversing entries. A reversing entry is the exact opposite of an adjusting entry. For FastForward, the Salaries Payable liability account is debited for $210, meaning that this account now has a zero balance after the entry is posted on January 1. The Salaries Payable account temporarily understates the liability, but this is not a problem because financial statements are not prepared before the liability is settled on January 9. The credit to the Salaries Expense account is unusual because it gives the account an abnormal credit balance. We highlight an abnormal balance by circling it. Because of the reversing entry, the January 9 entry to record payment debits the Salaries Expense account and credits Cash for the full $700 paid. It is the same as all other entries made to record 10 days' salary for the employee. We see that after the payment entry is posted, the Salaries Expense account has a $490 balance that reflects seven days' salary of $70 per day (see the lower right side of Exhibit 4A.1). The zero balance in the Salaries Payable account is now correct. The lower section of Exhibit 4A.1 shows that the expense and liability accounts have exactly the same balances whether reversing entries are used or not. Point: If a company chooses to prepare reversing entries, all accruals are reversed. Deferrals are not reversed.


Accrue salaries expense on December 31, 2021
Salaries Expense 210
Salaries Payable 210
Salaries Expense
Salaries Payable
WITHOUT Reversing Entries
WITH Reversing Entries
— OR —
No reversing entry recorded on Jan. 1, 2022
Reversing entry recorded on Jan. 1, 2022
NO ENTRY
Salaries Payable 210
Salaries Expense 210
Salaries Expense*
Pay the accrued and current salaries on January 9, the first payday in 2022
Salaries Expense 490
Salaries Payable 210
Cash 700
Salaries Expense 700
Cash 700
Under both approaches, the expense and liability accounts have identical balances after the cash payment on January 9.
Salaries Expense $490
Salaries Payable $0

Summary: Cheat Sheet WORK SHEET Work sheet: Used to help with adjusting and closing accounts and with preparing financial statements. Five Steps in Preparing Work sheet Enter unadjusted trial balance—list every account that appears on financial statements and their balances. Enter adjustments—enter the period-end adjustments. Prepare adjusted trial balance—combine the unadjusted balances and adjustments for each account. Sort adjusted trial balance amounts to financial statements— Table Summary: A table. Account Type Financial Statement Column Expenses Income Statement Debit Revenues Income Statement Credit Assets and withdrawals Balance Sheet & Statement of Owner's Equity Debit Liabilities and owner's capital Balance Sheet & Statement of Owner's Equity Credit Page 143 Total statement columns, compute income or loss, and balance columns—if income statement Credit total exceeds Debit total, there is net income. If Debit total exceeds Credit total, there is a net loss. Net income (loss) is then entered in the Balance Sheet & Statement of Owner's Equity Credit (Debit) column. CLOSING PROCESS Closing process: Occurs at period-end after financial statements have been prepared. Resets revenue, expense, and withdrawals balances to zero. Temporary accounts: Closed at period-end. They consist of revenue, expense, withdrawals, and Income Summary. Permanent accounts: Not closed at period-end. They consist of asset, liability, and owner capital (all balance sheet accounts). Income Summary: A temporary account only used for the closing process that has a credit for total revenues and a debit for total expenses. Closing Process Journal Entries by Step Post-closing trial balance: A list of permanent accounts (assets, liabilities, equity) and their balances after all closing entries. CLASSIFIED

BALANCE SHEET Classified balance sheet: Organizes assets and liabilities into meaningful subgroups. Current vs. long-term classification: Current items are to be collected or owed within one year. Long-term items are expected after one year. Current assets: Assets to be sold, collected, or used within one year. Examples are cash, short-term investments, accounts receivable, merchandise inventory, and prepaid expenses. Long-term investments: Assets to be held for more than one year. Examples are notes receivable and long-term investments in stock and bonds. Plant assets: Tangible assets used to produce or sell products and services. Examples are equipment, machinery, buildings, and land used in operations. Intangible assets: Long-term assets that lack physical form. Examples are patents, trademarks, copyrights, franchises, and goodwill. Current liabilities: Liabilities to be paid or settled within one year. Examples are accounts payable, wages payable, taxes payable, interest payable, unearned revenues, and current portions of notes or long-term debt. Long-term liabilities: Liabilities not due within one year. Examples are notes payable, mortgages payable, bonds payable, and lease obligations. Equity: The owner's claim on assets. For a proprietorship, this is the owner's capital account. Common Layout of Classified Balance Sheet Table Summary: A table. Assets Liabilities and Equity Current assets Current liabilities Noncurrent assets Noncurrent liabilities Long-term investments Plant assets Equity Intangible assets

No.	Account	① Unadjusted Trial Balance		② Adjustments		③ Adjusted Trial Balance		④ Income Statement		Balance Sheet & Statement of Owner's Equity	
		Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101	Cash	4,275				4,275				4,275	
106	Accounts receivable	0		(f) 1,800		1,800				1,800	
126	Supplies	9,720			(b) 1,050	8,670				8,670	
128	Prepaid insurance	2,400			(a) 100	2,300				2,300	
167	Equipment	26,000				26,000				26,000	
168	Accumulated depreciation—Equipment				(c) 300		300				300
201	Accounts payable		6,200				6,200				6,200
209	Salaries payable				(e) 210		210				210
236	Unearned consulting revenue		3,000	(d) 250			2,750				2,750
301	C. Taylor, Capital		30,000				30,000				30,000
302	C. Taylor, Withdrawals	200				200				200	
403	Consulting revenue		5,800		(d) 250		7,850		7,850		
					(f) 1,800						
406	Rental revenue		300				300		300		
612	Depreciation expense—Equipment			(c) 300		300		300			
622	Salaries expense	1,400		(e) 210		1,610		1,610			
637	Insurance expense			(a) 100		100		100			
640	Rent expense	1,000				1,000		1,000			
652	Supplies expense			(b) 1,050		1,050		1,050			
690	Utilities expense	305				305		305			
	Totals	45,300	45,300	3,710	3,710	47,610	47,610	4,365	8,150	43,245	39,460
	Net income ⑤							3,785			3,785
	Totals							8,150	8,150	43,245	43,245



1	Consulting Revenue	7,850			
	Rental Revenue	300			
	Income Summary		8,150		
2	Income Summary	4,365			
	Depreciation Expense—Equipment		300		
	Salaries Expense		1,610		
	Insurance Expense		100		
	Rent Expense		1,000		
	Supplies Expense		1,050		
	Utilities Expense		305		
3	Income Summary	3,785			
	C. Taylor, Capital			3,785	
4	C. Taylor, Capital	200			
	C. Taylor, Withdrawals			200	

Key Terms Accounting cycle (136) Classified balance sheet (136) Closing entries (132) Closing process (131) Current assets (137) Current liabilities (138) Current ratio (139) Income Summary (132) Intangible assets (138) Long-term investments (137) Long-term liabilities (138) Operating cycle (137) Permanent accounts (132) Post-closing trial balance (135) Reversing entries (141) Temporary accounts (132) Unclassified balance sheet (136) Work sheet (127)

Page 144 Multiple Choice Quiz G. Venda, owner of Venda Services, withdrew $25,000 from the business during the current year. The entry to close the withdrawals account at the end of the year is: Table Summary: Journal entries with account name and debit amount on first line of entry, followed by indented account name and credit amount on the second line. a. G. Venda, Withdrawals 25,000 G. Venda, Capital 25,000 b. Income Summary 25,000 G. Venda, Capital 25,000 c. G. Venda, Withdrawals 25,000 Cash 25,000 d. G. Venda, Capital 25,000 G. Venda, Withdrawals 25,000 The following information is available for the R. Kandamil Company before closing the accounts. After all

of the closing entries are made, what will be the balance in the R. Kandamil, Capital account? $360,000 $250,000 $160,000 $150,000 $60,000 Total revenues $300,000 Total expenses 195,000 R. Kandamil, Capital $100,000 R. Kandamil, Withdrawals 45,000 Which of the following errors would cause the Balance Sheet & Statement of Owner's Equity columns of a work sheet to be out of balance? Entering a revenue amount in the Balance Sheet & Statement of Owner's Equity Debit column. Entering a liability amount in the Balance Sheet & Statement of Owner's Equity Credit column. Entering an expense amount in the Balance Sheet & Statement of Owner's Equity Debit column. Entering an asset amount in the Income Statement Debit column. Entering a liability amount in the Income Statement Credit column. The temporary account used only in the closing process to hold the amounts of revenues and expenses before the net difference is added or subtracted from the owner's capital account is called the Closing account. Nominal account. Contra account. Balance Column account. Income Summary account. Based on the following information from Repicor Company's balance sheet, what is its current ratio? 2.10 1.50 1.00 0.95 0.67 Current assets $ 75,000 Long-term Investments 30,000 Plant assets 300,000 Current liabilities 50,000 Long-term liabilities 60,000 D. Repicor, Capital 295,000 ANSWERS TO MULTIPLE CHOICE QUIZ d c a e b

QUICK STUDY Superscript letter A denotes assignments based on Appendix 4A. Select Quick Study and Exercise assignments feature Guided Example videos, called "Hints" in Connect. Hints use different numbers, and instructors can turn this feature on or off. QS 4-1 Ordering work sheet steps P1 List the following steps in preparing a work sheet in the proper order. Total the statement columns, compute net income (loss), and complete the work sheet. Extend adjusted balances to appropriate financial statement columns. Prepare an unadjusted trial balance on the work sheet. Prepare an adjusted trial balance on the work sheet. Enter adjustments data on the work sheet. QS 4-2 Preparing a work sheet P1 Determine the financial statement column (Income Statement column or the Balance Sheet & Statement of Owner's Equity column) where a normal account balance is extended. Equipment Owner, Withdrawals Prepaid Rent Depreciation Expense Accounts Receivable Insurance Expense Supplies Rent Expense Cash QS 4-3 Computing capital balance using work sheet P1 The following selected information is taken from the work sheet for Warton Company at its December 31 year-end. Determine the amount for B. Warton, Capital that should be reported on its current December 31 year-end balance sheet. Note: The B. Warton, Capital account balance was $72,000 on December 31 of the prior year. Page 145 QS 4-4 Preparing a partial work sheet P1 The ledger of Claudell Company includes the following unadjusted normal balances: Prepaid Rent $1,000, Services Revenue $55,600, and Wages Expense $5,000. Adjustments are required for (a)

prepaid rent expired $200; (b) accrued services revenue $900; and (c) accrued wages expense $700. Prepare a 10-column work sheet with six rows for the following accounts: Prepaid Rent, Services Revenue, Wages Expense, Accounts Receivable, Wages Payable, and Rent Expense. Enter the unadjusted balances and the necessary adjustments on the work sheet and complete the work sheet for these accounts. QS 4-5 Explaining temporary and permanent accounts P2 Choose from the following list to best complete the statements below. Temporary Permanent One or more One Zero balances Income Summary accounts generally consist of all balance sheet accounts, and these accounts are not closed. Permanent accounts report on activities related to future accounting periods, and they carry their ending balances into the next period. Temporary accounts accumulate data related to accounting period. accounts include all income statement accounts, the withdrawals account, and the Income Summary account. QS 4-6 Preparing closing entries P2 The ledger of Mai Company includes the following accounts with normal balances as of December 31: D. Mai, Capital $9,000; D. Mai, Withdrawals $800; Services Revenue $13,000; Wages Expense $8,400; and Rent Expense $1,600. Prepare its December 31 closing entries. QS 4-7 Preparing closing entries in T-accounts P2 Set up T-accounts for the following accounts and amounts with normal balances as of December 31: K. Korver, Capital $18,000; K. Korver, Withdrawals $2,000; Services Revenue $33,000; Salaries Expense $25,000; Rent Expense $3,000; and Income Summary $0. (1) Post closing entries to each account's T-account. (2) Compute the ending balance of each T-account. QS 4-8 Preparing closing entries P2 Using Sierra Company's adjusted trial balance from QS 4-16, prepare its December 31 closing entries. QS 4-9 Analyzing closing entries on owner's capital P2 Ace Company reports revenues of $40,000 and expenses of $31,000. The owner made no additional investments during the period but withdrew $5,000 cash from the business. After closing entries are recorded, determine the amount of the increase or decrease in the owner's capital account. QS 4-10 Identifying post-closing accounts P2 For each account, identify whether it is included or excluded from a post-closing trial balance. Accounts Receivable Salaries Expense Cash Land Income Tax Expense Salaries Payable QS 4-11 Identifying the accounting cycle P2 List the following steps of the accounting cycle in their proper order. Posting the journal entries. Journalizing and posting adjusting entries. Preparing the adjusted trial balance. Journalizing and posting closing entries. Analyzing transactions and events. Preparing the financial statements. Preparing the unadjusted trial balance. Journalizing transactions and events. Preparing the post-closing trial balance. Page 146 QS 4-12 Classifying balance sheet items C1 Common categories of a classified balance sheet include Current Assets, Long-Term Investments, Plant Assets, Intangible Assets, Current Liabilities, and Long-Term Liabilities. For each of the following items, identify the balance sheet category where the item would best appear. Land Notes payable (due in five years) Accounts receivable Trademarks Accounts payable Equipment Wages

payable Cash QS 4-13 Preparing an income statement C1 Use the following selected accounts and amounts with normal balances from Buildex Co.'s adjusted trial balance to prepare its income statement for the year ended December 31. Hint: Not all accounts need to be used. Cash $ 9,000 Building 98,000 Accounts payable 8,000 Services revenue 60,000 Interest revenue 5,000 Depreciation expense 4,000 Wages expense 45,000 Insurance expense 3,000 Supplies expense 2,000 Utilities expense 1,000 QS 4-14 Preparing a statement of owner's equity C1 J. Clancy owns Clancy Consulting. On December 31 of the prior year, the J. Clancy, Capital account balance was $20,000. During the current year, Clancy invests an additional $15,000 in assets but withdrew $11,000 cash. Clancy Consulting reports net income of $32,000 for the current year. Prepare a statement of owner's equity for Clancy Consulting for the current year ended December 31. QS 4-15 Preparing a classified balance sheet C1 Use the following selected accounts and amounts with normal balances from Juan Co. to prepare its classified balance sheet at December 31. Wages payable $ 1,000 Building 100,000 Cash 18,000 Interest payable 2,000 L. Juan, Capital 50,000 Accounts receivable 7,000 Accumulated depreciation—Building 30,000 Notes payable (due in 5 years) 51,000 Notes receivable (due in 14 years) 20,000 Accounts payable 11,000 QS 4-16 Preparing an income statement & statement of owner's equity C1 Use the following adjusted trial balance of Sierra Company to prepare its (1) income statement and (2) statement of owner's equity for the year ended December 31. The L. Sierra, Capital account balance was $10,500 on December 31 of the prior year, and there are no owner investments during the current year. QS 4-17 Preparing a classified balance sheet C1 Use the information in the adjusted trial balance reported in QS 4-16 to prepare Sierra Company's classified balance sheet as of December 31. QS 4-18 Computing the current ratio A1 Compute Chavez Company's current ratio using the following information. Accounts receivable $18,000 Accounts payable 11,000 Buildings 45,000 Cash 7,000 Long-term notes payable 21,000 Office supplies 2,600 Prepaid insurance 3,200 Unearned services revenue 3,000Page 147 QS 4-19A Preparing reversing entries P3 Geralt Company made an adjusting entry at its December 31 year-end for $800 of wages earned by employees but not yet paid. Geralt uses reversing entries. Prepare the reversing entry Geralt must record on January 1. QS 4-20A Preparing reversing entries P3 On December 31, Yates Co. prepared an adjusting entry for $12,000 of earned but unrecorded consulting revenue. On January 16, Yates received $26,700 cash as payment in full for consulting work it provided that began on December 18 and ended on January 16. The company uses reversing entries. Prepare the December 31 adjusting entry. Prepare the January 1 reversing entry. Prepare the January 16 cash receipt entry.

	Income Statement		Balance Sheet & Statement of Owner's Equity	
	Dr.	Cr.	Dr.	Cr.
B. Warton, Capital				72,000
B. Warton, Withdrawals			39,000	
Totals	122,000	181,000		

Adjusted Trial Balance	Debit	Credit
Cash	$ 5,000	
Prepaid insurance	500	
Notes receivable (due in 5 years)	4,000	
Buildings	20,000	
Accumulated depreciation—Buildings		$12,000
Accounts payable		2,500
Notes payable (due in 3 years)		3,000
L. Sierra, Capital		10,500
L. Sierra, Withdrawals	1,000	
Consulting revenue		9,500
Wages expense	3,500	
Depreciation expense—Buildings	2,000	
Insurance expense	1,500	
Totals	$37,500	$37,500

EXERCISES Exercise 4-1 Assigning account balances on a work sheet P1 These 16 accounts are from the Adjusted Trial Balance columns of a company's work sheet. Determine the letter of the financial statement column (A, B, C, or D) where a normal account balance is extended. Debit column for the Income Statement columns. Credit

column for the Income Statement columns. Debit column for the Balance Sheet & Statement of Owner's Equity columns. Credit column for the Balance Sheet & Statement of Owner's Equity columns. Interest Revenue Machinery Owner, Withdrawals Depreciation Expense Accounts Payable Services Revenue Owner, Capital Interest Expense Accounts Receivable Accumulated Depreciation Office Supplies Insurance Expense Interest Receivable Cash Rent Expense Wages Payable Exercise 4-2 Extending accounts to financial statement columns P1 The Adjusted Trial Balance columns of a work sheet for Planta Company follow. Complete the work sheet by extending the account balances into the appropriate financial statement columns and by entering the amount of net income for the reporting period. Check Net income, $17,800 Exercise 4-3 Preparing adjusting entries from a work sheet P1 Use the following information from the Adjustments columns of a work sheet to prepare the necessary adjusting journal entries (a) through (e). Page 148 Exercise 4-4 Completing work sheet adjustments P1 The following data are taken from the unadjusted trial balance of the Westcott Company at December 31. Use the following information to complete the Adjustments columns of the work sheet. Depreciation on equipment, $3 Accrued salaries, $6 The $12 of unearned revenue has been earned Supplies available at December 31, $15 Expired insurance, $15 Extend the balances in the Adjusted Trial Balance columns of the work sheet to the proper financial statement columns. Compute totals for those columns, including net income. Exercise 4-5 Computing Income Summary and ending capital balance from closing entries P2 Capri Company began the current period with a $20,000 credit balance in the K. Capri, Capital account. At the end of the period, the company's adjusted account balances include the following temporary accounts with normal balances. Services revenue $70,000 Salaries expense 38,000 Depreciation expense 8,000 Interest revenue 7,000 K. Capri, Withdrawals 12,000 Utilities expense 4,600 After closing the revenue and expense accounts, what is the balance of the Income Summary account? After all closing entries are journalized and posted, what is the balance of the K. Capri, Capital account? Exercise 4-6 Completing the Income Statement columns and preparing closing entries P1 P2 Following are Income Statement columns from a 10-column work sheet for Brown's Bike Rental Company. Determine the amount that should be entered on the net income line of the work sheet. Prepare the company's closing entries. The owner, H. Brown, did not make any withdrawals this period. Page 149 Exercise 4-7 Preparing a work sheet and recording closing entries P1 P2 The following unadjusted trial balance contains the accounts and balances of Dylan Delivery Company as of December 31. Use the following information about the company's adjustments to complete a 10-column work sheet. Unrecorded depreciation on the trucks at the end of the year is $40,000. Total amount of accrued interest expense at year-end is $6,000. Cost of unused supplies still available at year-end is $2,000. (a) Prepare the year-end closing entries for this company. (b) Determine the capital amount to be reported on

its year-end balance sheet. Note: The S. Dylan, Capital account balance was $307,000 on December 31 of the prior year. Check Adj. trial balance totals, $820,000; Net income, $39,000 Exercise 4-8 Preparing and posting closing entries P2 Use the May 31 fiscal year-end information from the following ledger accounts (assume that all accounts have normal balances) to (a) prepare closing journal entries and (b) post those entries to ledger accounts. Check M. Muncel, Capital (ending balance), $46,200 Page 150 Exercise 4-9 Preparing closing entries and a post-closing trial balance P2 Following are accounts and year-end adjusted balances of Cruz Company as of December 31. Prepare the December 31 closing entries. The account number for Income Summary is 901. Prepare the December 31 post-closing trial balance. Note: The A. Cruz, Capital account balance was $47,600 on December 31 of the prior year. Table Summary: Table lists accounts and amounts. Columns 1 and 2 list the account numbers and names. Column 3 has the following blank rows: 5, 6, and 8. Column 4 has the following blank rows: 1 through 4, 7, and 9 through 13. No. Account Title Debit Credit 101 Cash $ 19,000 126 Supplies 13,000 128 Prepaid insurance 3,000 167 Equipment 24,000 168 Accumulated depreciation—Equipment $ 7,500 301 A. Cruz, Capital 47,600 302 A. Cruz, Withdrawals 7,000 403 Services revenue 44,000 612 Depreciation expense—Equipment 3,000 622 Salaries expense 22,000 637 Insurance expense 2,500 640 Rent expense 3,400 652 Supplies expense 2,200 Totals $99,100 $99,100 Exercise 4-10 Preparing an income statement & statement of owner's equity C1 Use the following adjusted trial balance at December 31 of Wilson Trucking Company to prepare the (1) income statement and (2) statement of owner's equity, for the year ended December 31. The K. Wilson, Capital account balance was $170,000 at December 31 of the prior year, and there were no owner investments during the current year. Table Summary: Table lists accounts and amounts. Column 1 lists the account names. Column 2 is Debits with the following blank rows: 5, 7 through 10, and 12. Column 3 is Credits with the following blank rows: 1 through 4, 6, 11, and 13 through 16. Account Title Debit Credit Cash $ 8,000 Accounts receivable 17,500 Office supplies 3,000 Trucks 172,000 Accumulated depreciation—Trucks $ 36,000 Land 85,000 Accounts payable 12,000 Interest payable 4,000 Long-term notes payable 58,000 K. Wilson, Capital 170,000 K. Wilson, Withdrawals 20,000 Trucking revenue 130,000 Depreciation expense—Trucks 23,500 Salaries expense 61,000 Office supplies expense 8,000 Interest expense 12,000 Totals $410,000 $410,000Page 151 Exercise 4-11 Preparing a classified balance sheet C1 Use the information in the adjusted trial balance reported in Exercise 4-10 to prepare Wilson Trucking Company's classified balance sheet as of December 31. Exercise 4-12 Preparing closing entries P2 Using Wilson Trucking Company's adjusted trial balance from E 4-10, prepare its December 31 closing entries. Exercise 4-13 Preparing a classified balance sheet C1 Use the following selected accounts and amounts with normal balances from Andrea Co. to prepare its

classified balance sheet at December 31. Accounts payable $ 8,000 Land 30,000 Cash 13,000 Salaries payable 1,000 S. Andrea, Capital 42,000 Machinery 20,000 Prepaid insurance 2,000 Accounts receivable 4,000 Accumulated depreciation—Machinery 16,000 Notes payable (due in 7 years) 29,000 Long-term investments in bonds 7,000 Notes receivable (due in 4 years) 15,000 Merchandise inventory 5,000 Exercise 4-14 Computing the current ratio A1 (a) Use the information in the adjusted trial balance reported in Exercise 4-11 to compute the current ratio for Wilson Trucking. (b) Assuming Spalding (a competitor) has a current ratio of 1.5, which company is better able to pay its short-term obligations? Exercise 4-15 Computing and analyzing the current ratio A1 (a) Calculate the current ratio for each of the following competing companies. (b) Which competitor is in the best position to pay its short-term obligations? Table Summary: A table. Edison MAXT Chatter TRU Gleeson Current Assets $79,040 104,880 45,080 85,680 61,000 Current Liabilities $32,000 76,000 49,000 81,600 100,000 Exercise 4-16A Preparing reversing entries P3 Hawk Company used the following information to prepare adjusting entries at its December 31 year-end. Prepare any necessary reversing entries for accounting adjustments a through e assuming that the company uses reversing entries. The company earned $6,000 in service revenues that were not yet recorded at year-end. The expired portion of prepaid insurance was $3,700. The company earned $2,900 of its Unearned Revenue account balance. Depreciation expense for office equipment was $3,300. Employees earned, but have not been paid, salaries of $3,400. Exercise 4-17A Preparing reversing entries P3 Trey Co. entered into the following two transactions. Trey prepares financial statements annually at December 31. Trey rents a building for $2,800 per month beginning December 1. By agreement, Trey paid cash for both December and January rent on January 2. Trey rents space in a building it owns to a tenant for $850 per month. Trey agreed to allow the tenant to delay payment for December and January rent until January 3, when the tenant paid cash for both months. Required Prepare adjusting entries the company must record for these events as of December 31. Assuming Trey does not use reversing entries, prepare journal entries to record Trey’s payment of rent on January 2 and the collection of the tenant’s rent on January 3. Assuming Trey uses reversing entries, prepare reversing entries on January 1. Also prepare journal entries to record Trey’s payment of rent on January 2 and the receipt of the tenant’s rent on January 3.

		Adjusted Trial Balance		Income Statement		Balance Sheet and Statement of Owner's Equity	
No.	Account Title	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101	Cash	$ 7,000					
106	Accounts receivable	27,200					
153	Trucks	42,000					
154	Accumulated depreciation—Trucks		$ 17,500				
183	Land	32,000					
201	Accounts payable		15,000				
209	Salaries payable		4,200				
236	Unearned revenue		3,600				
301	B. Planta, Capital		65,500				
302	B. Planta, Withdrawals	15,400					
403	Plumbing revenue		84,000				
611	Depreciation expense—Trucks	6,500					
622	Salaries expense	38,000					
640	Rent expense	13,000					
677	Miscellaneous expenses	8,700					
	Totals	$189,800	$189,800				
	Net income						
	Totals						

		Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance	
No.	Account Title	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
109	Interest receivable			*(d)* $ 880			
124	Office supplies				*(b)* $ 1,750		
128	Prepaid insurance				*(a)* 900		
164	Accumulated depreciation—Office equipment				*(c)* 2,200		
209	Salaries payable				*(e)* 560		
409	Interest revenue				*(d)* 880		
612	Depreciation expense—Office equipment			*(c)* 2,200			
620	Office salaries expense			*(e)* 560			
637	Insurance expense			*(a)* 900			
650	Office supplies expense			*(b)* 1,750			
	Totals			$6,290	$6,290		

	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet & Statement of Owner's Equity	
Account	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
Cash	21									
Accounts receivable	12									
Supplies	24									
Prepaid insurance	18									
Equipment	39									
Accumulated depreciation—Equipment		15								
Accounts payable		6								
Salaries payable										
Unearned revenue		12								
W. Westcott, Capital		42								
W. Westcott, Withdrawals	6									
Services revenue		75								
Depreciation expense—Equipment										
Salaries expense	18									
Insurance expense										
Supplies expense										
Utilities expense	12									
Totals	150	150								
Net income										
Totals										

Account Title	Debit	Credit
Rental revenue		$120,000
Salaries expense	$ 46,300	
Insurance expense	7,400	
Supplies expense	16,000	
Bike repair expense	4,200	
Depreciation expense—Bikes	20,500	
Totals		
Net income		
Totals		

General Ledger

M. Muncel, Capital — Acct. No. 301

Date	PR	Debit	Credit	Balance
May 31	G2			40,000

M. Muncel, Withdrawals — Acct. No. 302

Date	PR	Debit	Credit	Balance
May 31	G2			22,000

Services Revenue — Acct. No. 403

Date	PR	Debit	Credit	Balance
May 31	G2			76,000

Depreciation Expense — Acct. No. 603

Date	PR	Debit	Credit	Balance
May 31	G2			15,000

Salaries Expense — Acct. No. 622

Date	PR	Debit	Credit	Balance
May 31	G2			20,000

Insurance Expense — Acct. No. 637

Date	PR	Debit	Credit	Balance
May 31	G2			4,400

Rent Expense — Acct. No. 640

Date	PR	Debit	Credit	Balance
May 31	G2			8,400

Income Summary — Acct. No. 901

Date	PR	Debit	Credit	Balance

Unadjusted Trial Balance

Account Title	Debit	Credit
Cash	$ 16,000	
Accounts receivable	34,000	
Supplies	5,000	
Trucks	350,000	
Accumulated depreciation—Trucks		$ 80,000
Land	160,000	
Accounts payable		24,000
Interest payable		5,000
Long-term notes payable		100,000
S. Dylan, Capital		307,000
S. Dylan, Withdrawals	34,000	
Delivery revenue		263,000
Depreciation expense—Trucks	40,000	
Salaries expense	110,000	
Supplies expense	15,000	
Interest expense	5,000	
Repairs expense	10,000	
Totals	$779,000	$779,000

PROBLEM SET A Problem 4-1A Applying the accounting cycle P2 On April 1, Jiro Nozomi created a new travel agency, Adventure Travel. The following transactions occurred during the company's first month. Apr. 2 Nozomi invested $30,000 cash and computer equipment worth $20,000 in the company. 3 The company rented furnished office space by paying $1,800 cash for the first month's (April) rent. 4 The company purchased $1,000 of office supplies for cash. 10 The company paid $2,400 cash for a 12-month insurance policy. Coverage begins on April 11. 14 The company paid $1,600 cash for two weeks' salaries earned by employees. 24 The company collected $8,000 cash for commissions revenue. 28 The company paid $1,600 cash for two weeks' salaries earned by employees. 29 The company paid $350 cash for minor repairs to computer equipment. 30 The company paid $750 cash for this month's telephone bill. 30 Nozomi withdrew $1,500 cash from the company for personal use.Page 152 The company's chart of accounts follows. 101 Cash 106 Accounts Receivable 124 Office Supplies 128 Prepaid Insurance 167 Computer Equipment 168 Accumulated Depreciation—Computer Equip. 209 Salaries Payable 301 J. Nozomi, Capital 302 J. Nozomi, Withdrawals 403 Commissions Revenue 612 Depreciation Expense—Computer Equip. 622 Salaries Expense 637 Insurance Expense 640 Rent Expense 650 Office Supplies Expense 684 Repairs Expense 688 Telephone Expense 901 Income Summary Required Use the balance column format to set up each ledger account listed in its chart of accounts. Prepare journal entries to record the transactions for April and post them to ledger accounts. Prepare an unadjusted trial balance as of April 30. Check (3) Unadj. trial balance totals, $58,000 Use the following information to journalize and post adjusting entries for the month. Prepaid insurance of $133 expired this month. (4a) Dr. Insurance Expense, $133 At the end of the month, $600 of office supplies are still available. This month's depreciation on computer equipment is $500. Employees earned $420 of unpaid and unrecorded salaries as of month-end. The company earned $1,750 of commissions revenue that is not yet recorded at month-end. Prepare the adjusted trial balance as of April 30. Prepare the income statement and the statement of owner's equity for the month of April and the balance sheet at April 30. (5) Net income, $2,197; Total assets, $51,117 Prepare journal entries to close the temporary accounts and post these entries to the ledger. Prepare a post-closing trial balance. (7) P-C trial balance totals, $51,617 Problem 4-2A Preparing a work sheet, adjusting and closing entries, and financial statements C1 P1 P2 The following unadjusted trial balance is for Ace Construction Co. at its June 30 current fiscal year-end. The credit balance of the V. Ace, Capital account was $53,660 on June 30 of the prior year, and the owner invested $35,000 cash during the current fiscal year. Page 153 Required Prepare and complete a 10-column work sheet for the current fiscal year, starting with the unadjusted trial balance and including adjustments using the following additional information. Supplies available at the end of the current fiscal year total $3,300.

Cost of expired insurance for the current fiscal year is $3,800. Annual depreciation on equipment is $8,400. June utilities expense of $650 is not included in the unadjusted trial balance because the bill arrived after the trial balance was prepared. The $650 amount owed must be recorded. Employees have earned $1,800 of accrued and unpaid wages at fiscal year-end. Rent expense incurred and not yet paid or recorded at fiscal year-end is $500. Additional property taxes of $1,000 have been assessed for this fiscal year but have not been paid or recorded at fiscal year-end. $250 accrued interest for June has not yet been paid or recorded. Using information from the completed 10-column work sheet in part 1, journalize the adjusting entries and the closing entries. Prepare the income statement and the statement of owner's equity for the year ended June 30 and the classified balance sheet at June 30. Check (3) Net income, $30,890; Total assets, $122,550; Current liabilities, $11,000 Problem 4-3A Determining balance sheet classifications C1 Common categories of a classified balance sheet include Current Assets, Long-Term Investments, Plant Assets, Intangible Assets, Current Liabilities, Long-Term Liabilities, and Equity. For each of the following items, identify the balance sheet category where the item typically would best appear. If an item does not appear on the balance sheet, indicate that instead. Long-term investment in stock Depreciation expense—Building Prepaid rent (2 months of rent) Interest receivable Taxes payable (due in 5 weeks) Automobiles Notes payable (due in 3 years) Accounts payable Cash Patents Unearned services revenue Trucks Prepaid insurance (expires in 5 months) Buildings Store supplies Office equipment Land Repairs expense Office supplies Wages payable Problem 4-4A Preparing financial statements and closing entries C1 P2 The adjusted trial balance for Tybalt Construction on December 31 of the current year follows. Oro Tybalt invested $5,000 cash in the business during the year. The O. Tybalt, Capital account balance was $121,400 on December 31 of the prior year. Table Summary: Table lists accounts and amounts. Columns 1 and 2 list the account numbers and names. Column 3 has the following blank rows: 6, 8, 10 through 18, and 20 through 23. Column 4 has the following blank rows: 1 through 5, 7, 9, 19, and 24 through 35. Adjusted Trial Balance December 31 No. Account Title Debit Credit 101 Cash $ 5,000 126 Supplies 31,100 128 Prepaid insurance 7,000 167 Equipment 40,000 168 Accumulated depreciation—Equipment $20,000 173 Building 150,000 174 Accumulated depreciation—Building 50,000 183 Land 55,000 201 Accounts payable 16,500 203 Interest payable 2,500 208 Rent payable 3,500 210 Wages payable 2,500 213 Property taxes payable 900 236 Unearned revenue 14,500 251 Long-term notes payable 60,000 301 O. Tybalt, Capital 126,400 302 O. Tybalt, Withdrawals 13,000 403 Services revenue 97,000 406 Rent revenue 14,000 409 Interest revenue 4,100 606 Depreciation expense—Building 11,000 612 Depreciation expense—Equipment 6,000 623 Wages expense 52,900 633 Interest expense 5,100 637 Insurance expense 10,000 640 Rent expense 13,400 652

Supplies expense 7,400 683 Property taxes expense 5,000 Totals $411,900 $411,900Page 154 Required Prepare the income statement and the statement of owner's equity for the current year ended December 31, and the classified balance sheet at December 31. Check (1) Total assets $218,100; Net income, $4,300 Prepare the necessary closing entries at December 31 of the current year. Problem 4-5A Preparing financial statements and closing entries C1 P2 The adjusted trial balance of Karise Repairs on December 31 follows. Table Summary: Table lists accounts and amounts. Columns 1 and 2 list the account numbers and names. Column 3 has the following blank rows: 5 through 8, and 10. Column 4 has the following blank rows: 1 through 4, 9, and 11 through 16. Adjusted Trial Balance December 31 No. Account Title Debit Credit 101 Cash $ 14,000 124 Office supplies 1,300 128 Prepaid insurance 2,050 167 Equipment 50,000 168 Accumulated depreciation—Equipment $ 5,000 201 Accounts payable 14,000 210 Wages payable 600 301 C. Karise, Capital 33,000 302 C. Karise, Withdrawals 16,000 403 Services revenue 90,950 612 Depreciation expense—Equipment 5,000 623 Wages expense 37,500 637 Insurance expense 800 640 Rent expense 10,600 650 Office supplies expense 3,600 690 Utilities expense 2,700 Totals $143,550 $143,550 Required Prepare an income statement and a statement of owner's equity for the year, and a classified balance sheet at December 31. Note: The C. Karise, Capital account balance was $33,000 on December 31 of the prior year, and there were no owner investments during the current year. Check (1) Ending capital balance, $47,750; Net income, $30,750 Prepare the December 31 closing entries. Page 155 Problem 4-6AA Preparing reversing entries P3 The following six-column table for Hawkeye Ranges includes the unadjusted trial balance as of December 31. Required Complete the six-column table by entering adjustments that reflect the following information. As of December 31, employees had earned $1,200 of unpaid and unrecorded salaries. The next payday is January 4, at which time $1,500 of salaries will be paid. Cost of supplies still available at December 31 total $3,000. An interest payment is made every three months. The amount of unrecorded accrued interest at December 31 is $1,875. The next interest payment, at an amount of $2,250, is due on January 15. Analysis of Unearned Revenue shows $5,800 remaining unearned at December 31. Revenue of $9,300 is accrued for services provided. Payment will be collected on January 31. Depreciation expense is $15,000. Check (1) Adjusted trial balance totals, $239,625 Prepare journal entries for adjustments entered in the six-column table for part 1. Prepare journal entries to reverse the effects of the adjusting entries that involve accruals. Prepare journal entries to record cash payments and cash collections described in part 1 for January.

PROBLEM SET B Problem 4-1B Applying the accounting cycle P2 On July 1, Lula Plume created a new self-storage business, Safe Storage Co. The following transactions occurred

during the company's first month. July 2 Plume invested $30,000 cash and buildings worth $150,000 in the company. 3 The company rented equipment by paying $2,000 cash for the first month's (July) rent. 5 The company purchased $2,400 of office supplies for cash. 10 The company paid $7,200 cash for a 12-month insurance policy. Coverage begins on July 11. 14 The company paid an employee $1,000 cash for two weeks' salary earned. 24 The company collected $9,800 cash for storage revenue from customers. 28 The company paid $1,000 cash for two weeks' salary earned by an employee. 29 The company paid $950 cash for minor repairs to buildings. 30 The company paid $400 cash for this month's telephone bill. 31 Plume withdrew $2,000 cash from the company for personal use. The company's chart of accounts follows: 101 Cash 106 Accounts Receivable 124 Office Supplies 128 Prepaid Insurance 173 Buildings 174 Accumulated Depreciation—Buildings 209 Salaries Payable 301 L. Plume, Capital 302 L. Plume, Withdrawals 403 Storage Revenue 606 Depreciation Expense—Buildings 622 Salaries Expense 637 Insurance Expense 640 Rent Expense 650 Office Supplies Expense 684 Repairs Expense 688 Telephone Expense 901 Income SummaryPage 156 Required Use the balance column format to set up each ledger account listed in its chart of accounts. Prepare journal entries to record the transactions for July and post them to ledger accounts. Prepare an unadjusted trial balance as of July 31. Check (3) Unadj. trial balance totals, $189,800 Use the following information to journalize and post adjusting entries for the month. Prepaid insurance of $400 expired this month. (4a) Dr. Insurance Expense, $400 At the end of the month, $1,525 of office supplies are still available. This month's depreciation on buildings is $1,500. An employee earned $100 of unpaid and unrecorded salary as of month-end. The company earned $1,150 of storage revenue that is not yet recorded at month-end. Prepare the adjusted trial balance as of July 31. Prepare the income statement and the statement of owner's equity for the month of July and the balance sheet at July 31. (5) Net income, $2,725; Total assets, $180,825 Prepare journal entries to close the temporary accounts and post these entries to the ledger. Prepare a post-closing trial balance. (7) P-C trial balance totals, $182,325 Problem 4-2B Preparing a work sheet, adjusting and closing entries, and financial statements C1 P1 P2 The following unadjusted trial balance is for Power Demolition Company at its April 30 current fiscal year-end. The credit balance of the J. Bonn, Capital account was $46,900 on April 30 of the prior year, and the owner invested $40,000 cash during the current fiscal year. Required Prepare and complete a 10-column work sheet for the current fiscal year, starting with the unadjusted trial balance and including adjustments using the following additional information. Supplies available at the end of the current fiscal year total $7,900. Cost of expired insurance for the current fiscal year is $10,600. Annual depreciation on equipment is $7,000. April utilities expense of $800 is not included in the unadjusted trial balance because the bill arrived after the trial balance was prepared. The $800 amount owed must be recorded. Employees have earned $2,000 of accrued and

unpaid wages at fiscal year-end. Rent expense incurred and not yet paid or recorded at fiscal year-end is $3,000. Page 157 Additional property taxes of $550 have been assessed for this fiscal year but have not been paid or recorded at fiscal year-end. $300 accrued interest for April has not yet been paid or recorded. Using information from the completed 10-column work sheet in part 1, journalize the adjusting entries and the closing entries. Prepare the income statement and the statement of owner's equity for the year ended April 30 and the classified balance sheet at April 30. Check (3) Net income, $77,550; Total assets, $195,900; Current liabilities, $13,450 Problem 4-3B Determining balance sheet classifications C1 Common categories of a classified balance sheet include Current Assets, Long-Term Investments, Plant Assets, Intangible Assets, Current Liabilities, Long-Term Liabilities, and Equity. For each of the following items, identify the balance sheet category where the item typically would best appear. If an item does not appear on the balance sheet, indicate that instead. Commissions revenue Interest receivable Long-term investment in stock Prepaid insurance (4 months of rent) Machinery Notes payable (due in 15 years) Copyrights Rent payable Trucks Office equipment Rent receivable Salaries payable Income taxes payable (due in 11 weeks) Patents Office supplies Interest payable Rent revenue Notes receivable (due in 10 years) Land Depreciation expense—Trucks Problem 4-4B Preparing financial statements and closing entries C1 P2 The adjusted trial balance for Anara Co. on December 31 of the current year follows. Petra Anara invested $40,000 cash in the business during the year. The P. Anara, Capital account balance was $52,800 on December 31 of the prior year. Table Summary: Table lists accounts and amounts. Columns 1 and 2 list the account numbers and names. Column 3 has the following blank rows: 6, 8, 10 through 18, and 20 through 23. Column 4 has the following blank rows: 1 through 5, 7, 9, 19, and 24 through 35. Adjusted Trial Balance December 31 No. Account Title Debit Credit 101 Cash $ 7,400 126 Supplies 15,800 128 Prepaid insurance 1,000 167 Equipment 24,000 168 Accumulated depreciation—Equipment $ 4,000 173 Building 100,000 174 Accumulated depreciation—Building 10,000 183 Land 30,500 201 Accounts payable 3,500 203 Interest payable 1,750 208 Rent payable 400 210 Wages payable 1,280 213 Property taxes payable 3,330 236 Unearned revenue 9,150 251 Long-term notes payable 31,600 301 P. Anara, Capital 92,800 302 P. Anara, Withdrawals 8,000 403 Services revenue 59,600 406 Rent revenue 4,500 409 Interest revenue 2,320 606 Depreciation expense—Building 2,000 612 Depreciation expense—Equipment 1,000 623 Wages expense 22,030 633 Interest expense 1,550 637 Insurance expense 1,525 640 Rent expense 3,600 652 Supplies expense 1,000 683 Property taxes expense 4,825 Totals $224,230 $224,230Page 158 Required Prepare the income statement and the statement of owner's equity for the current year ended December 31, and the classified balance sheet at December 31. Check (1) Total assets, $164,700; Net income, $28,890 Prepare the

necessary closing entries at December 31 of the current year. Problem 4-5B Preparing financial statements and closing entries C1 P2 Santo Company's adjusted trial balance on December 31 follows. Table Summary: Table lists accounts and amounts. Columns 1 and 2 list the account numbers and names. Column 3 has the following blank rows: 5 through 8, and 10. Column 4 has the following blank rows: 1 through 4, 9, and 11 through 16. Adjusted Trial Balance December 31 No. Account Title Debit Credit 101 Cash $ 14,450 125 Store supplies 5,140 128 Prepaid insurance 1,200 167 Equipment 31,000 168 Accumulated depreciation—Equipment $ 8,000 201 Accounts payable 1,500 210 Wages payable 2,700 301 P. Santo, Capital 35,650 302 P. Santo, Withdrawals 15,000 403 Services revenue 54,700 612 Depreciation expense—Equipment 2,000 623 Wages expense 26,400 637 Insurance expense 600 640 Rent expense 3,600 651 Store supplies expense 1,200 690 Utilities expense 1,960 Totals $102,550 $102,550 Required Prepare an income statement and a statement of owner's equity for the year, and a classified balance sheet at December 31. Note: The P. Santo, Capital account balance was $35,650 on December 31 of the prior year, and there were no owner investments during the current year. Check (1) Ending capital balance, $39,590 Prepare the December 31 closing entries. Problem 4-6BA Preparing reversing entries P3 The following six-column table for Solutions Co. includes the unadjusted trial balance as of December 31. Page 159 Required Complete the six-column table by entering adjustments that reflect the following information. Check (1) Adjusted trial balance totals, $111,300 As of December 31, employees had earned $400 of unpaid and unrecorded wages. The next payday is January 4, at which time $1,200 in wages will be paid. Cost of supplies still available at December 31 is $3,450. An interest payment is made every three months. The amount of unrecorded accrued interest at December 31 is $800. The next interest payment, at an amount of $900, is due on January 15. Analysis of Unearned Revenue shows that $3,200 remains unearned at December 31. Revenue of $2,450 is accrued for services provided. Payment will be collected on January 31. Depreciation expense is $3,800. Prepare journal entries for adjustments entered in the six-column table for part 1. Prepare journal entries to reverse the effects of the adjusting entries that involve accruals. Prepare journal entries to record cash payments and cash collections described in part 1 for January.

SERIAL PROBLEM Business Solutions P2 Serial problem began in Chapter 1. If previous chapter segments were not completed, the serial problem can begin at this point. It is available in Connect with an algorithmic option. Alexander Image/Shutterstock SP 4 The December 31, 2021, adjusted trial balance of Business Solutions (reflecting its transactions from October through December of 2021) follows. Table Summary: Table lists accounts and amounts. Columns 1 and 2 list the account numbers and names. Column 3

has the following blank rows: 7, 9 through 13, 15, and 26. Column 4 has the following blank rows: 1 through 6, 8, 14, and 16 through 25. No. Account Title Debit Credit 101 Cash $ 48,372 106 Accounts receivable 5,668 126 Computer supplies 580 128 Prepaid insurance 1,665 131 Prepaid rent 825 163 Office equipment 8,000 164 Accumulated depreciation—Office equipment $ 400 167 Computer equipment 20,000 168 Accumulated depreciation—Computer equipment 1,250 201 Accounts payable 1,100 210 Wages payable 500 236 Unearned computer services revenue 1,500 301 S. Rey, Capital 73,000 302 S. Rey, Withdrawals 7,100 403 Computer services revenue 31,284 612 Depreciation expense—Office equipment 400 613 Depreciation expense—Computer equipment 1,250 623 Wages expense 3,875 637 Insurance expense 555 640 Rent expense 2,475 652 Computer supplies expense 3,065 655 Advertising expense 2,753 676 Mileage expense 896 677 Miscellaneous expenses 250 684 Repairs expense—Computer 1,305 901 Income summary 0 Totals $109,034 $109,034Page 160 Required Prepare an income statement for the three months ended December 31, 2021. Prepare a statement of owner's equity for the three months ended December 31, 2021. Hint: The S. Rey, Capital account balance was $0 on October 1, and owner investments were $73,000 this period. Prepare a classified balance sheet as of December 31, 2021. Record and post the necessary closing entries as of December 31, 2021. Prepare a post-closing trial balance as of December 31, 2021. Check (5) Post-closing trial balance totals, $85,110

TABLEAU DASHBOARD ACTIVITIES Tableau Dashboard Activities expose students to accounting analytics using visual displays. These assignments run in Connect. All are auto-gradable. Tableau DA 4-1 Quick Study, Classifying balance sheet items, C3—similar to QS 4-12 Tableau DA 4-2 Exercise, Preparing a post-closing trial balance and current assets section of a balance sheet, P3, C3—similar to Exercise 4-9 and QS 4-15 Tableau DA 4-3 Mini-Case, Preparing a classified balance sheet, C3—similar to QS 4-17 and Exercise 4-13

GENERAL LEDGER General Ledger (GL) Assignments expose students to general ledger software similar to that in practice. GL is part of Connect, and GL assignments are auto-gradable and have algorithmic options. For the following GL assignments, prepare adjusting entries and determine their impact on net income. Financial statements are automatically generated based on entries recorded—this feature can be turned off. GL 4-1 Transactions from the FastForward illustration in this chapter GL 4-2 Based on Problem 4-1A GL 4-3 Based on Problem 4-2A GL 4-4 Based on Problem 4-6A GL 4-5 Based on Serial Problem SP 4

Accounting Analysis COMPANY ANALYSIS P2 AA 4-1 Refer to Apple's financial statements in Appendix A to answer the following. For the fiscal year ended September 28, 2019, what amount is credited to Income Summary to summarize its revenues earned? Hint: make sure to consider any "Other income" reported on Apple's income statement. For the fiscal year ended September 28, 2019, what amount is debited to Income Summary to summarize its expenses incurred? For the fiscal year ended September 28, 2019, what is the balance of its Income Summary account before it is closed? COMPARATIVE ANALYSIS A1 AA 4-2 Key figures for the recent two years of both Apple and Google follow. Table Summary: A spanner heading appears over columns 2 and 3 and over columns 4 and 5. Apple Google $ millions Current Year Prior Year Current Year Prior Year Current assets $162,819 $131,339 $152,578 $135,676 Current liabilities 105,718 115,929 45,221 34,620Page 161 Required Compute current ratios for (a) Apple and (b) Google for the two years reported above. In the current year, which company has the better ability to pay short-term obligations according to the current ratio? Do (a) Apple's and (b) Google's current ratios underperform or outperform the industry (assumed) average ratio of 2.0? EXTENDED ANALYSIS A1 AA 4-3 The following selected information is available from Samsung's financial statements. Table Summary: A table. $ millions Current Year Prior Year Current assets $155,634 $149,896 Current liabilities 54,728 $ 59,274 Required Compute Samsung's current ratio for both the current year and the prior year. In the current year, did Samsung's current ratio improve or worsen versus the prior year?

Discussion Questions What are the steps in recording closing entries? What accounts are affected by closing entries? What accounts are not affected? What two purposes are accomplished by recording closing entries? What is the purpose of the Income Summary account? Explain whether an error has occurred if a post-closing trial balance includes a Depreciation Expense account. What tasks are aided by a work sheet? Why are the debit and credit entries in the Adjustments columns of the work sheet identified with letters? What is a company's operating cycle? What classes of assets and liabilities are shown on a typical classified balance sheet? How is unearned revenue classified on the balance sheet? What are the characteristics of plant assets? A How do reversing entries simplify recordkeeping? A If a company recorded accrued salaries expense of $500 at the end of its fiscal year, what reversing entry could be made? When would it be made?

Beyond the Numbers ETHICS CHALLENGE P2 BTN 4-1 On January 20, Tamira Nelson, the accountant for Picton Enterprises, is feeling pressure to complete the annual December 31 year-end financial statements. The company president has said he needs up-to-date

financial statements to share with the bank on January 21 at a dinner meeting that has been called to discuss Picton's obtaining loan financing for a special building project. Tamira knows that she will not be able to gather all the needed information in the next 24 hours to prepare the entire set of adjusting entries. Those entries must be posted before the financial statements accurately portray the company's performance and financial position for the year ended December 31 (three weeks ago). Tamira ultimately decides to estimate several expense accruals at the last minute. When deciding on estimates for the expenses, she uses low estimates because she does not want to make the financial statements look worse than they are. Tamira finishes the financial statements before the deadline and gives them to the president without mentioning that several account balances are estimates that she provided. Page 162 Required Identify several courses of action that Tamira could have taken instead of the one she took. If you were in Tamira's situation, what would you have done? Briefly justify your response. COMMUNICATING IN PRACTICE P2 BTN 4-2 One of your classmates states that a company's books should be ongoing and therefore not closed until that business is terminated. Write a half-page memo to this classmate explaining the concept of the closing process by drawing analogies between (1) a scoreboard for an athletic event and the revenue and expense accounts of a business or (2) a sports team's record book and the capital account. Hint: Think about what would happen if the scoreboard were not cleared before the start of a new game. TEAMWORK IN ACTION P1 P2 BTN 4-3 The unadjusted trial balance and information for the accounting adjustments of Noseworthy Investigators follow. Each team member involved in this project is to assume one of the four responsibilities listed. After completing each of these responsibilities, the team should work together to prove the accounting equation utilizing information from teammates (1 and 4). If your equation does not balance, you are to work as a team to resolve the error. The team's goal is to complete the task as quickly and accurately as possible. Table Summary: Table lists accounts and amounts. Column 2 has the following blank rows: 5, 6, 7, and 9. Column 3 has the following blank rows: 1 through 4, 8, and 10. Unadjusted Trial Balance Account Title Debit Credit Cash $16,000 Supplies 12,000 Prepaid insurance 3,000 Equipment 25,000 Accumulated depreciation—Equipment $ 7,000 Accounts payable 3,000 D. Noseworthy, Capital 34,000 D. Noseworthy, Withdrawals 6,000 Investigation revenue 33,000 Rent expense 15,000 Totals $77,000 $77,000 Additional Year-End Information Insurance that expired in the current period amounts to $2,200. Equipment depreciation for the period is $4,000. Unused supplies total $5,000 at period-end. Services in the amount of $800 have been provided but have not been billed or collected. Responsibilities for Individual Team Members Determine the accounts and adjusted balances to be extended to the Balance Sheet columns of the work sheet for Noseworthy. Also determine total assets and total liabilities. Determine the adjusted revenue account balance and prepare

the entry to close this account. Determine the adjusted account balances for expenses and prepare the entry to close these accounts. Page 163 Prepare T-accounts for both D. Noseworthy, Capital (reflecting the unadjusted trial balance amount) and Income Summary. Ask teammates assigned to parts 2 and 3 for the postings for Income Summary. Using that information, prepare and post both the third and fourth closing entries. Provide the team with the ending capital account balance. The entire team should prove the accounting equation using post-closing balances. ENTREPRENEURIAL DECISION P2 C1 BTN 4-4 Review this chapter's opening feature involving Evan and Bobby and Snapchat. Explain how a classified balance sheet can help Evan and Bobby know what bills are due when and whether they have the resources to pay those bills. Why is it important for Evan and Bobby to match costs and revenues in a specific time period? How do closing entries help them in this regard? What objectives are met when Evan and Bobby apply closing procedures each fiscal year-end? Design Element: ©Danil Melekhin/Getty Images

Unadjusted Trial Balance June 30			
No.	**Account Title**	**Debit**	**Credit**
101	Cash	$ 18,500	
126	Supplies	9,900	
128	Prepaid insurance	7,200	
167	Equipment	132,000	
168	Accumulated depreciation—Equipment		$ 26,250
201	Accounts payable		6,800
203	Interest payable		0
208	Rent payable		0
210	Wages payable		0
213	Property taxes payable		0
251	Long-term notes payable		25,000
301	V. Ace, Capital		88,660
302	V. Ace, Withdrawals	33,000	
403	Construction revenue		132,100
612	Depreciation expense—Equipment	0	
623	Wages expense	46,860	
633	Interest expense	2,750	
637	Insurance expense	0	
640	Rent expense	12,000	
652	Supplies expense	0	
683	Property taxes expense	7,800	
684	Repairs expense	2,910	
690	Utilities expense	5,890	
	Totals	$278,810	$278,810

	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance	
Account Title	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
Cash	$ 14,000					
Accounts receivable	0					
Supplies	6,500					
Equipment	135,000					
Accumulated depreciation—Equipment		$ 30,000				
Interest payable		0				
Salaries payable		0				
Unearned revenue		15,000				
Notes payable		75,000				
P. Hawkeye, Capital		50,250				
P. Hawkeye, Withdrawals	21,125					
Services revenue		42,000				
Depreciation expense—Equipment	0					
Salaries expense	30,000					
Interest expense	5,625					
Supplies expense	0					
Totals	$212,250	$212,250				